ENN 新奧

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

Building a Modern Energy System
Improving the Quality of Life

創建現代能源體系
提高人民生活品質

INTERIM REPORT 2019
二零一九年中期業績報告

CONTENTS

FINANCIAL AND OPERATIONAL HIGHLIGHTS

The major results and operational data of the Group for the period together with the comparative figures for the corresponding period last year are as follows:

	Six months ended 30 June		Increased/
	2019	2018	(Decreased) by
	(Unaudited)	(Unaudited)	
Results			
Revenue (RMB million)	**35,344**	26,530	33.2%
Gross profit (RMB million)	**5,598**	4,662	20.1%
Profit attributable to owners of the Company (RMB million)	**3,362**	1,782	88.7%
Basic earnings per share (RMB)	**2.99**	1.64	82.3%
Operational data#			
Number of city-gas projects in China	**201**	178	23
Urban population coverage (thousand)	**99,950**	88,609	12.8%
New natural gas customers developed during the period:			
– residential households (thousand)	**1,287**	1,078	19.4%
– C/I customers (site)	**12,110**	10,764	1,346
– installed designed daily capacity for C/I customers (thousand m^3)	**8,638**	8,228	5.0%
Accumulated number of piped gas customers:			
– residential households (thousand)	**19,787**	17,300	14.4%
– C/I customers (site)	**133,209**	102,643	30,566
– installed designed daily capacity for C/I customers (thousand m^3)	**115,178**	96,129	19.8%
Piped gas penetration rate	**59.4%**	58.6%	0.8ppt
Unit of natural gas sold to residential households (million m^3)	**1,887**	1,614	16.9%
Unit of natural gas sold to C/I customers (million m^3)	**7,289**	6,264	16.4%
Unit of natural gas sold to vehicles (million m^3)	**593**	613	(3.3%)
Wholesale of gas volume (million m^3)	**3,435**	2,571	33.6%
Number of natural gas processing stations	**191**	176	15
Combined daily capacity of natural gas processing stations (thousand m^3)	**139,360**	118,500	17.6%
Total length of existing intermediate and main pipelines (km)	**49,444**	42,032	17.6%
Accumulated number of integrated energy projects in operation	**82**	46	36
Integrated energy projects under construction	**37**	38	(1)
Sales volume of integrated energy (million kWh)	**1,952**	1,016	92.1%

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

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results

For the six months ended 30 June 2019, revenue of the Group increased by 33.2% to RMB35,344 million compared to the same period last year. The increase was mainly driven by the steady growth of natural gas sales business, as well as the contribution from integrated energy business and the new projects acquired last year. Gross profit margin was 15.8%, down 1.8 percentage points compared to the same period last year. The decline was mainly due to the change of revenue mix and the increase in average procurement cost of natural gas. Profit attributable to owners of the Company amounted to RMB3,362 million, representing an increase of 88.7%, and basic earnings per shares increased by 82.3% to RMB2.99 compared to the same period last year. Net profit margin was 11.2%, up 2.5 percentage points, compared to the same period last year. The improvement was attributable to the growth of core businesses and better operational efficiency. Meanwhile, the oil prices fluctuation within the two reporting periods resulted in significant fair value changes on the Group's derivative contracts, which were used to hedge against the price fluctuation of its long-term liquefied natural gas ("LNG") contracts. Thus, stripping out the impact of non-operating items, including acquisitions and disposals, fair value changes, provisions and exchange rate, and amortisation of share option expenses which amounted to RMB628 million, core profit driven by operating activities increased by 14.4% to RMB2,734 million.

For the six months ended 30 June 2019, total volume of natural gas sales of the Company, together with its subsidiaries, joint ventures and associates, increased by 19.4% compared to the same period last year to 13,204 million cubic metres. The revenue of joint ventures and associates was RMB9,910 million and RMB6,171 million respectively. If the revenue of the joint ventures and the associates are consolidated, the total revenue for the six months ended 30 June 2019 will be approximately RMB51,425 million.

Business Review

The unstable global political and economic situation, alongside the ongoing trade dispute between the United States and China in the first half of 2019, led to a downward pressure on China's economy, the impact was particularly significant on the export-oriented manufacturing sector. At the backdrop of unfavourable international business environment, gas consumption volume by some of the manufacturers was affected due to reducing number of manufacturing orders. Nevertheless, the government's determination to promote environmental protection and pollution control appears to remain firm. Continuous efforts were paid to promote natural gas as one of the main energy sources, including the promotion of "coal-to-gas" conversion, integrated utilisation of multiple energy sources, and a quality and efficiency-oriented energy supply model, bringing huge business opportunities to the Group. Through proactive new customers development which brought to the Group incremental gas sales volume, the impact from reducing gas consumption by some of the customers was offset. Moreover, the Group's diversified commercial and industrial ("C/I") customers portfolio also mitigated cyclical risks.

Even though the upstream gas suppliers continued to increase prices after winter season, the Group managed to achieve its internal target through focusing on gas source coordination, incremental cost pass-through, new customers development and gas sales volume expansion. During the period, total natural gas sales volume increased by 19.4% to 13,204 million cubic metres compared to the same period last year, stripping out wholesale gas volume, retail gas sales volume grew significantly by 15.1% to 9,769 million cubic metres. Integrated energy business developed rapidly, with the sales of energy including steam, cooling, heating and electricity significantly increased by 92.1% to 1,952 million kWh. The Group developed 12,110 new C/I customers and 1,286,500 new residential customers. Driven by its solid business performance, revenue and profit of the Group grew significantly, coupled with better working capital management, the Group's operating cash flow grew strongly by 124.9% to RMB4,294 million. The continuous generation of free cash flow, will strengthen the Group's ability to withstand economic downturn and the risk of deteriorating market environment, as well as enhancing its dividend payout capability in the future.

With years of steady growth in operating results and an innovative business model that keeps up with market trends, the Group was officially included as a constituent of the Hang Seng China Enterprises Index in June this year, and was included in four influential rankings in capital market, including No. 29 in The World's 50 Most Valuable Public Utility Brands (No. 2 among Chinese shortlisted companies) reported by Brand Finance, a UK brand valuation consultancy; No. 147 in "China's Top 500 List" ranked by Fortune Magazine, an international financial magazine highly recognised by investment professionals; No. 1434 in Forbes' annual Global 2000 list (No. 11 in Natural Gas sector); and No. 82 in Top 100 Comprehensive Strength List of "Top 100 Listed Company in Hong Kong" co-organised by a number of authoritative financial media and financial institutions. These awards indicated the Group's powerful influence in energy sector and capital market.

Retail Gas Sales Business

With a customer-oriented strategy, the Group digs deep into existing customers and explores new customers with natural gas demand. During the period, natural gas sold to commercial and industrial customers, residential customers and gas refuelling stations increased by 15.1% to 9,769 million cubic metres compared to the same period last year, driving the revenue up 24.7% to RMB20,332 million.

Commercial and Industrial Market

Most of the Group's projects are located in key areas of air pollution prevention and control such as Beijing-Tianjin-Hebei, Henan, Shandong, Jiangsu, Zhejiang, Guangdong, where local governments strictly implement environmental protection policies. Taking advantage of the opportunities arising from air pollution prevention and control battle, the Group tapped the potential of the industrial and commercial market and actively promoted the replacement of coal-fired boilers for C/I users. At the same time, the Group leveraged on its advantage of owning 320 industrial park concessions, and opportunities arisen from the relocation of industrial facilities to industrial parks, successfully developed a large number of new customers. During the period, the Group developed a total number of 12,110 C/I customers (installed gas appliances with designed daily capacity of 8,637,801 cubic metres), among which, incremental designed daily capacity from newly developed "coal-to-gas" customers was approximately 2.88 million cubic metres, accounting for 33.3% of newly developed C/I customers. The Group implements market pricing for C/I construction and installation fees, the average fee remained stable during the period. As of 30 June 2019, the total number of C/I customers served by the Group was 133,209 (installed gas appliances with designed daily capacity of 115,177,890 cubic metres).

To cope with the challenges of upstream gas price hike and the slowdown in economic growth, the Group collected and analysed customer energy consumption data through the established intelligent operation platform, and worked out solutions to address their issues in managing energy consumption, such as providing customers with energy-saving services to improve the economies of using natural gas, and tailoring different sales package for customers with different affordability. The Group also provided discount to customers with stable and large gas consumption volume, and those with peak-shaving or interruptible gas needs, in an attempt to continue expanding gas sales volume while supplying gas steadily and safely. Dollar margin of gas sales was relatively stable thanks to the Group's excellent gas source coordination and deployment capabilities and its good relationship with customers. During the period, total volume of natural gas sold to C/I customers reached 7,289 million cubic metres, representing an increase of 16.4% compared to the same period last year, and accounted for 74.6% of the retail natural gas sales volume.

Residential Market

China is sprinting toward a “moderately well-off society”. In this context, the large-scale urbanisation has been carried out with the utilisation of clean energy so as to improve the environment as well as to meet the demand arising from people’s pursuit of quality life. This provides the Group with enormous opportunities for developing urban residential market. On the other side, the Group continued to work with local governments on implementing their development initiatives, such as “every township-level unit has access to natural gas”, “every village has access to natural gas” and “building beautiful villages”, and prudently carry out “rural coal-to-gas” conversion in areas with higher affordability such as Tianjin, Hebei, Shandong and Henan as part of its efforts to assist the local governments in achieving the replacement of scattered coals for the prevention and control of air pollution. The Group developed 1,286,500 residential households, in which new buildings, existing buildings and “rural coal-to-gas” conversion accounted for 66%, 15%, and 19% respectively. The average construction and installation fee was RMB2,510 per household, maintaining at a stable level over the past years. As of 30 June 2019, the Group has developed 19.79 million residential customers cumulatively, raising the average piped gas penetration rate from 58.8% at the end of December 2018 to 59.4%.

According to National Bureau of Statistics, the disposable income of national residents in the first half of the year grew faster than the national economic growth rate, while the average per capita disposable income for urban residents was 2.74 times higher than that of rural residents. The Group continued to focus on natural gas sales for urban residents, and established tier-pricing mechanism to further increase the gas sales profits of urban residential users. As of 30 June 2019, the Group cumulatively developed 1,470,000 natural gas space heating users, and established residential gas tier-pricing mechanism for 181 city-gas projects. Benefiting from the ramping up of gas consumption by newly developed residential customers and natural gas space heating users, the volume of natural gas sold to residential users increased by 16.9% to 1,887 million cubic metres.

Integrated Energy Business

Premier Li Keqiang clearly stated in the 2019 Government Work Report that the energy consumption per unit of GDP must be further reduced by 3% during the year. It means that China is stepping up plans to develop a clean, low-carbon and highly efficient energy systems. The integrated energy business actively developed by the Group is in line with China's energy reform strategy. The operation of integrated energy business is mainly based on customers' demand, which requires a deep understanding of customers' business conditions, characteristics of their energy loads, and manufacturing processes, then the Group evaluates the competitiveness of different kinds of primary energy sources available locally, such as biomass, industrial waste heat, photovoltaics, geothermal heat and seawater heat sources, and finally compares different technical routes to tailor the best integrated energy solutions for customers. The value of this business was highly recognised by customers and local governments. During the period, the integrated energy solutions provided by the Group so far successfully helped customers reduce energy consumption of more than 100,000 tons of standard coal and reduce carbon dioxide emissions of 460,000 tons.

Leveraging on its industry-leading technology and business model, the Group signed 106 new projects during the period, with a potential integrated energy demand of up to 63 billion kWh, and 20 new projects were put into operation spanning over 8 provinces including Guangdong, Guangxi, Hunan, Anhui, Henan, Zhejiang, Jiangsu and Hebei, providing an incremental energy demand of 3,364 million kWh annually. As of 30 June 2019, the aggregate number of integrated energy projects in operation rose to 82, with a potential energy demand of 7,897 million kWh per year and a total installed capacity of 1,561 MW. The Group also seized upon the opportunities arising from incremental power distribution reform by taking part in pilot projects. The two incremental power distribution network projects in which the Group has controlling stakes, namely Tongling Modern Industrial Park in Bengbu of Anhui Province and Beihewan Circular Industrial Park in Jinta County of Gansu Province, have obtained power company business permits (power supply) and are qualified to supply power to users in the industrial park. The Group expects the above projects to generate more than 1.3 billion kWh of electricity sales in the future.

Thanks to the improving utilisation of projects in operation over the past two years, and the new projects which were put into operation during the period, the sales of integrated energy including cooling, heating, electricity and steam amounted to 1,952 million kWh, generating a revenue of RMB1,019 million, up 176.2% compared to the same period last year. Given the improving utilisation of energy facilities and optimised business portfolio, gross profit of integrated energy business significantly increased by 635.7% to RMB206 million compared to the same period last year. The Group strategically develops integrated energy business through expanding the distribution networks of gas, heat, steam and incremental power grid. With a prudent attitude in mind, the Group invests in and takes part in the construction of high-quality integrated energy projects under the premise that the expected project return meets the Group's requirement.

Value-added Services Driving the Growth of Energy Sales

The Group is serving up to 19.92 million residential and C/I customers in its concession areas, and customer scale keeps growing as gas penetration rate increases. Taking advantage of its brand influence and an online offline service platform that connects with end customers, the Group actively promoted gas appliances such as cookers, space heaters, water heaters, kitchen ventilators, and disinfection cabinets under its own brand "Gratle", and launched a variety of smart products such as smart gas metres, alarms, automatic shut-off valves, etc. It also provided residential users with synergistic services such as gas insurance agency and floor heating installation, making efforts to dig deeper into the value of its large customer network. Since the Group announced its "customer-centricity" business philosophy, employees started to focus on customers' needs and managed to explore various business opportunities. In addition to stimulating the sales volume of gas-related products, the Group also provided its member companies with energy experts to provide C/I customers with energy-saving technologies and retrofitting services, so as to maintain customers' market competitiveness by enhancing their energy consumption and production efficiency, thereby driving the continuous growth of customers' energy needs. During the period, revenue from value-added services and products amounted to RMB1,037 million, up 125.4% compared to the same period last year. Benefiting from the Group's continuous efforts to promote high-end and smart products, together with the diversified value-added services provided to customers, gross profit significantly increased by 195.5% compared to the same period last year to RMB659 million.

Energy Trading Business

Leveraging on its well-established upstream resources network, smart dispatching system, and large-capacity LNG transportation fleets, the Group distributed LNG to downstream customers such as small-scale gas distributors, C/I customers outside its city-gas concessions, LNG refuelling stations and power plants. During the period, gas sales volume increased by 33.6% compared to the same period last year to 3,435 million cubic metres, driving revenue from energy trading business significantly up 41.5% to RMB9,330 million. The Group maintained a leading share in domestic LNG trading market. However, downstream LNG market price had been going downwards due to the increasingly fierce competition in the first half of the year, gross profit in energy trading business was down by 80.2% compared to the same period last year to RMB38 million.

Intelligent Operation to Reduce Cost and Improve Efficiency

Embracing a digital and information era and the opportunities arising from customers' growing demand of energy supply and related services, the Group provides customers with various convenient gas services with online and offline channels such as mobile applications, Near Field Communication signs, social communication tools and intelligent robots, in an attempt to improve customers' satisfaction. The Group also keeps abreast of latest technological advancement in daily operation and management, gaining insight into customers' energy use pattern through energy consumption data collection, and making use of big data analysis to provide accurate information for decision-making and resources allocation. The Group has been gradually replacing metric gas metres with smart meters measuring based on monetary values for end users, in an attempt to improve its operation and management efficiency, and to realise automatic cost pass-through to cope with the increasingly frequent pricing adjustment by upstream suppliers. The intelligent management improved the Group's operating efficiency. During the period, sales and administrative expense was 5.1% of revenue, decreased by 0.8 percentage points compared to the same period last year.

New Gas Projects Development

The Group seized the opportunity arising from industry consolidation. Leveraging on its keen market insight, excellent safety and operational management, flexible project development strategies and leading integrated energy service philosophy, the Group acquired the exclusive operating rights of 14 city-gas projects during the period, together with 3 new concessions around its existing projects, with an incremental population of 2.45 million and expected gas sales volume of 800 million cubic metres in the next three years. As of 30 June 2019, the Group had a total of 201 city-gas projects in China, spanning over 19 provinces, municipalities and autonomous regions including Anhui, Beijing, Fujian, Guangdong, Guangxi, Hebei, Henan, Hunan, Inner Mongolia, Heilongjiang, Gansu, Jiangsu, Jiangxi, Liaoning, Sichuan, Shandong, Yunnan, Zhejiang, and Shanxi, with a population of 99.95 million.

Employee Incentive Scheme

The Group is committed to transforming from a pure natural gas distributor to a leading integrated energy service provider. In this context, the cultivation and retention of talents is the key to the Group's transformation. Apart from the existing share option schemes, the Group also adopted a share award scheme on 30 November 2018 to optimise the compensation structure for managers and key personnel. The purpose of the scheme is to link employee's compensation to their contributions, incentivise them to remain with and excel in their performance for continuing operation and development of the Group, and to attract suitable talents for further development of the Group. During the period, the trustee of the share awards scheme purchased 2,415,100 shares of the Company in accordance with the rules of the scheme and the trust deed over-the-counter as a reserve to incentivise employees in the future. The Group on 28 March 2019 granted a total of 12,328,000 share options to the Directors and certain employees of the Company, and business consultants who contribute to the success of the Company, with an exercise price of HK$76.36 per share. The Group will continue to take its business development and talent acquisition plan into consideration when offering employee competitive incentive programmes, so as to drive employees to create greater value for the Company.

Corporate Social Responsibility

"Building a Modern Energy System, Improving the Quality of Life" is the mission of the Group. With the Group's excellent management team and technological innovation, we constantly improved city-gas distribution services, and actively innovated operation and management, while accelerating scalable development of integrated energy business at the same time. We aimed at building a modern energy system through the adoption of renewable energy and clean use of traditional fossil fuels which provided supplemental advantages, to facilitate social development and environmental improvement while achieving our economic growth. We helped our customers reduce greenhouse gas and pollutant emissions through natural gas sales and integrated energy business, at the same time strictly controlled emissions during our own operation, by saving resources, reducing emissions, more stringent post-emissions treatment and other measures, so as to achieve green management throughout the life cycle of energy consumption.

In order to manage the Group's Environment Social and Governance ("ESG") performance in a more effective manner, the Group established an ESG Committee on 21 March 2019 which comprises of Executive Chairman, Chief Executive Officer and one of the Independent Non-Executive Directors, to support the Board in formulating ESG strategy of the Group and supervise the implementation of ESG initiatives. At the same time, an ESG working group was set up, including the Chief Financial Officer, the Company Secretary, the head of investor relations department, the Quality, Health, Safety and Environment ("QHSE") department and human resources department, to ensure that all aspects of ESG are properly managed and implemented, and gradually optimise the ESG management capability of the Group.

Outlook

China stated in the 13th Five-Year Plan for Energy Development that natural gas consumption should reach 360 billion cubic metres by 2020, accounting for 10% of primary energy consumption. It was also determined to strictly control coal consumption, atmospheric pollutants and greenhouse gas emissions in key regions, continuously implementing environmental protection policies to control air pollution. The Group's natural gas sales business will continue to benefit from these opportunities. The National Development and Reform Commission ("NDRC") published "Guiding Opinion on the Regulation of Installation Fees for Gas Facilities in Cities and Towns" in the first half of the year indicating that for regions which have not established marketisation, their construction and installation fees should be regulated by local governments according to local conditions, so as to ensure the level of those charges is reasonable, hence enhancing the transparency of the city-gas industry's regulatory environment. The NDRC also issued a new policy, which has lifted the restriction on overseas registered companies to own controlling stakes of downstream city-gas projects, thermal pipe network, as well as domestic oil and gas exploration and development projects in cities with a population of more than 0.5 million. This policy brings a broader market for the Group to expand its gas and integrated energy business, while the open up of upstream market will promote a more diversified resource supply. We believe the industry will benefit from China's energy industry reform.

The national plan of "Guangdong-Hong Kong-Macao Greater Bay Area" brings very significant potential to the Group's integrated energy and gas distribution business. The Company has a leading market share in the Greater Bay Area, with a total of 25 city-gas concessions and 11 integrated energy projects, supplying energy to high-quality C/I customers such as airports, pharmaceutical plants and industrial parks, etc. The Group will take advantage of the resource advantages in both upstream and downstream of the Greater Bay Area, and actively expand its clean energy business in the area with innovative business models and technologies to help the country build a world-class Bay Area and a world-class urban agglomeration with beautiful ecological environment.

Looking forward to the second half, the Group will make every effort to achieve its performance guidance with measures such as developing more customers to expand business scale, diversifying gas procuring channels, conducting intelligent matching of supply and demand, customer gas consumption planning and management, as well as strategic passthrough of incremental gas cost.

Financial Resources Review

Financial Resources and Liquidity

The Group's capital mainly derived from cash inflow of its business operations, financing, investment income and equity. The main factors influencing the Group's future cash balance are cash flow from operation, capital expenditures and repayment of debts.

An analysis of the Group's cash, current and non-current debts is as follows:

	30 June 2019 RMB million	31 December 2018 RMB million	Increased/ (Decreased) by RMB million
Bank balances and cash (excluding restricted bank deposits)	**7,742**	7,923	(181)
Long-term debts (including bonds)	**10,878**	8,688	2,190
Short-term debts (including bonds)	**8,303**	11,561	(3,258)
Total debts	**19,181**	20,249	(1,068)
Net debts[1]	**11,439**	12,326	(887)
Total equity	**28,011**	25,554	2,457
Net gearing ratio[2]	**40.8%**	48.2%	(7.4ppt)
Net current liabilities	**10,449**	11,478	(1,029)
Unutilised credit facilities	**14,427**	12,110	2,317

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

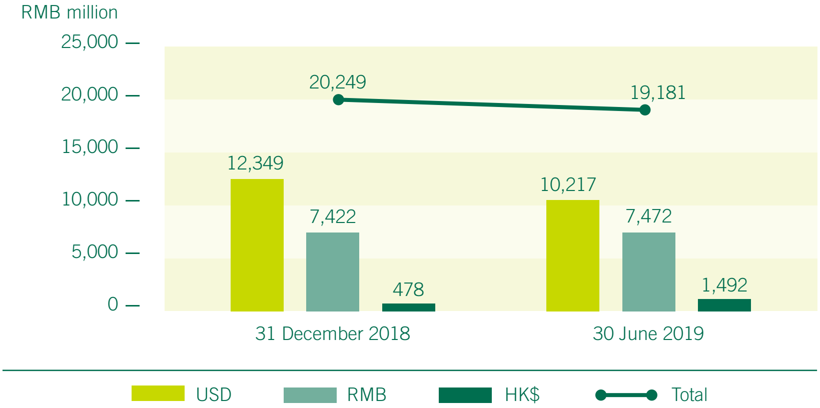
2 Net gearing ratio = Net debts / Total equity

The Group has been adopting a prudent management policy on financial resources to ensure the stability and flexibility of the Group's capital and debts structure. As at 30 June 2019, the Group's total debts amounted to RMB19,181 million, representing a decrease of RMB1,068 million compared to the total debts as of 31 December 2018, mainly paid by income from operating activities. The Group's bank balances and cash (excluding restricted bank deposits) amounted to RMB7,742 million, maintaining at a level similar to 31 December 2018. As a result, the Group's net gearing ratio reduced to 40.8% as at 30 June 2019 (31 December 2018: 48.2%).

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

As at 30 June 2019, the principal amount of the Group's borrowings denominated in foreign currencies amounted to USD1,491 million (31 December 2018: USD1,806 million) and HK$1,696 million (31 December 2018: HK$546 million), equivalent to approximately RMB10,217 million (31 December 2018: RMB12,349 million) and RMB1,492 million (31 December 2018: 478 million) respectively, and among which 74.0% (31 December 2018: 62.6%) is long-term debt. In managing foreign exchange risk arising from bonds and loans denominated in foreign currencies, the Company entered into foreign currency derivative contracts, mainly cross currency swaps, with various financial institutions. The terms of which are in line with that of the Group's foreign bonds. Such foreign currency derivative contracts can mitigate the foreign exchange risk arising from the interest and principal payments of such foreign debts. As of 30 June 2019, the Group has hedged debt principal of USD790 million (31 December 2018: USD700 million) and the hedge ratio of long-term USD debts reached 59.4% (31 December 2018: 56.4%). In view of the recent notable fluctuation in RMB/USD rate, the Group will continue to closely monitor the foreign exchange market and strive to use foreign currency derivative contracts to mitigate the impact on its results when deemed appropriate.

Debt Structure



The impact of debt repayment on cash flow

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

In 2019, two bonds with an aggregate amount of RMB2,944 million will expire. Of which, the USD65 million five-year unsecured bond will expire in October and will be repaid by internal resources. For the RMB2,500 million three-year corporate bond, it will be refinanced by issuing new bonds using the remaining RMB3,500 million issuance quota of a wholly-owned subsidiary of the Company as approved by the China Securities Regulatory Commission on 10 December 2018.

Debt Repayment Schedule

Net Current Liabilities

The Group's current liabilities mainly include a large amount of receipts in advance of gas fee, and construction and installation contracts. These funds are stable and will normally not be returned, therefore the Group will invest the funds in development of new projects and maintain a reasonable cash level, resulting in net current liabilities.

During the first half of 2019, in response to market changes, the Group replaced certain short-term loans with long-term loans. As at 30 June 2019, the Group's short-term debt to total debt ratio decreased to 43.3% as compared to 57.1% at the end of last year. Net current liabilities also improved, reducing to RMB10,449 million (31 December 2018: RMB11,478 million).

As the Group has stable operating cash flow, high quality current assets and good credit ratings, plus sufficient cash on hand, unutilised banking facilities and debt issuance quota, the Directors are satisfied that the Group is able to meet its working capital requirements and future capital expenditure.

Credit Rating

During the period, the Group's credit ratings given by three international rating agencies remained favourable. Standard & Poor's maintained a credit rating on the Group of BBB+ and issued a "stable" outlook. Moody's maintained Baa2 rating and "stable" outlook while Fitch Ratings maintained BBB rating and "stable" outlook. In China, Xinao (China) Gas Investment Company Limited, a wholly-owned subsidiary of the Company responsible for onshore business investment, was awarded the highest AAA credit rating and a "stable" outlook by the United Credit Ratings Co., Ltd. It is believed that the good credit ratings will provide the Group with sufficient financial resources for its long-term development.

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

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

Contingent Liabilities

As at 30 June 2019, the Group had no significant contingent liabilities.

Financial Guarantee Liability

As at 30 June 2019, the Group had issued guarantees to banks to secure loan facilities granted to associates and joint ventures of approximately RMB447 million (31 December 2018: RMB203 million). The amounts have been utilised at the end of the reporting period.

Capital Expenditures and Commitments

For the six months ended 30 June 2019, the Group's capital expenditure was RMB3,384 million (six months ended 30 June 2018: RMB3,364 million), mainly related to piped gas projects, integrated energy projects and acquisition of new projects.

As at 30 June 2019 and 31 December 2018, the Group's capital commitments are as follows:

	At 30 June 2019 RMB million	At 31 December 2018 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**1,066**	1,113
Capital commitments in respect of		
– investments in joint ventures	**230**	212
– investments in associates	**321**	219
– other equity investments	**20**	92

Commodity Price Risk Management

As the major operations of the Group are in China, revenues and expenses are mainly denominated in RMB, therefore, the Group is not exposed to significant foreign exchange risk in its operation. Except for the abovementioned foreign currency-denominated debts, the foreign exchange risk faced by the Group mainly comes from LNG international procurement business denominated in USD.

International LNG Procurement Contracts

The long-term LNG procurement contracts signed by the Group with three international natural gas suppliers was implemented in the second half of 2018. The pricing of the contracts is mainly linked to the international oil price. In order to cope with the resulting risk of commodity price fluctuations, the Group has established a comprehensive risk management policy. The Group's policy is to stabilise the LNG procurement costs by hedging a certain reasonable proportion of LNG annual procurement plans to reduce LNG price exposures. Benefited mainly from the recovery of oil price during the first half of 2019, the Group recognised an unrealised hedging gain of RMB647 million and a realised hedging gain of RMB139 million during the six months ended 30 June 2019.

The Group continually optimises existing hedging strategies to better manage the risks associated with the Group's import LNG business, including policy and mandate, limiting the scope of available derivatives and hedge positions. In addition, the Group has introduced more hedging experts and advanced Energy Trading and Risk Management System to support real-time and accurate model analysis, and to improve the hedging strategy and product pricing model.

Compliance with the Corporate Governance Code

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

To the knowledge of the Board, the Company has complied with the Code Provisions set out in the CG Code as contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2019 except a deviation from Code Provision E.1.2 that Mr. Wang Yusuo (Chairman of the Board) was unable to attend the annual general meeting (the "AGM") of the Company held on 30 May 2019 due to business trip. Alternatively, Mr. Wang Dongzhi, the Executive Director of the Company, attended and acted as the chairman of the said AGM to ensure effective communication with shareholders of the Company at the AGM. The chairman of the Audit Committee, Mr. Law Yee Kwan, Quinn and the chairman of the Remuneration Committee, Mr. Yuen Po Kwong had also attended the AGM.

Audit Committee

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

Deloitte Touche Tohmatsu, the Company's independent auditor, has carried out a review of the unaudited interim financial report of the Group for the six months ended 30 June 2019 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The Company's Audit Committee meeting was held on 21 August 2019 to review the Group's unaudited interim results and interim financial report for the six months ended 30 June 2019.

At the Company's AGM held on 30 May 2019, the re-appointment of Deloitte Touche Tohmatsu as the Company's independent auditor for the financial year ending 31 December 2019 was approved by shareholders with support of over 98% of the votes.

Board of Directors

As at 30 June 2019, the composition of the Board of the Company is set out below:

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

The Directors subject to re-election at the 2019 AGM, namely Mr. Wang Yusuo, Mr. Wang Zizheng, Mr. Ma Zhixiang, Mr. Yuen Po Kwong and Ms. Yien Yu Yu, Catherine, were all re-elected as Directors with the approval of the shareholders.

Changes in Information of Directors

On 21 March 2019, the Company has established an Environmental, Social and Governance ("ESG") Committee which comprises of Executive Chairman Mr. Wang Zizheng, Chief Executive Officer Mr. Han Jishen and Independent Non-Executive Director Mr. Ma Zhixiang to support the Board in formulating ESG strategy of the Group and supervise the implementation of ESG initiatives, as well as the publication of ESG report.

Ms. Yien Yu Yu, Catherine has been appointed as the Deputy Chairman of the Listing Committee of the Stock Exchange on 5 July 2019 and a member to the Advisory Committee of the Securities and Futures Commission for a term of two years, from 1 June 2019 to 31 May 2021.

Save as disclosed above, no change in Directors' information that is required to be disclosed under Rule 13.51B(1) of the Listing Rules since the date of the Company's 2018 Annual Report.

Compliance with the Model Code

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Securities Transactions by Directors of Listed Issuers ("Model Code") as contained in Appendix 10 to the Listing Rules. In response to a specific enquiry by the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct during the six months ended 30 June 2019.

Senior management and staff who, because of their office in the Company, are likely to be in possession of inside information (which term shall bear the same meaning as in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) of the Company, have also been requested to comply with the provisions of the Model Code.

Disclosure of the Directors' Interests

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

The interests and short positions of Directors, including the Company's chief executive, in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 30 June 2019 as recorded in the register required to be kept under Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as contained in Appendix 10 to the Listing Rules were as follows:

		Number of shares/underlying shares held				Approximate percentage of the Company's total issued shares
Name of Director	Capacity	Personal interests	Corporate interests	Interest in share options	Total interests	
Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	–	369,175,534 (Note 1)	1,060,000	370,235,534	32.93%
Cheung Yip Sang (Alias: Zhang Yesheng)	Beneficial owner	–	–	759,000	759,000	0.07%
Wang Zizheng	Beneficial owner	95,000	–	420,000	515,000	0.05%
Han Jishen	Beneficial owner	–	–	587,875	587,875	0.05%
Liu Min	Beneficial owner	–	–	360,000	360,000	0.03%
Wang Dongzhi	Beneficial owner	15,000	–	647,000	662,000	0.06%
Ma Zhixiang	Beneficial owner	–	–	105,000	105,000	0.01%
Yuen Po Kwong	Beneficial owner	–	–	120,000	120,000	0.01%
Law Yee Kwan, Quinn	Beneficial owner	–	–	120,000	120,000	0.01%
Yien Yu Yu, Catherine	Beneficial owner	106,000	–	60,000	166,000	0.01%

Note:

1. Such shares are beneficially owned by Mr. Wang and Ms. Zhao Baoju ("Ms. Zhao"), the spouse of Mr. Wang through 100% controlled corporations, including Langfang City Natural Gas Company ("LCNG"), ENN Investment Holdings Limited ("EIH"), ENN Group International Investment Limited ("EGII") and Essential Investment Holding Limited ("EIHL").

Save as disclosed above and in the section headed "Share-based Compensation Scheme" in this report, no other persons had any interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as at 30 June 2019 as recorded in the register required to be kept under Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share-based Compensation Scheme

The Company operates share option schemes ("Share Options Schemes") and share award scheme ("Share Award Scheme") for the purpose of attracting, retaining and incentivising major employees. The eligible persons for the schemes are Directors (including independent non-executive Directors), certain employees of the Group, and business consultants who contribute to the success of the Group.

Share Option Schemes

The Company has adopted the "2002 Scheme" and the "2012 Scheme" of the Share Option Schemes pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002 and at an annual general meeting of the Company held on 26 June 2012 respectively.

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

Scheme/Grantee	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Outstanding as at 1 January 2019	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2019 (Note 2)
2002 Scheme								
Employee	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	–	–	100,000
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–	–	–	100,000
Total				200,000	–	–	–	200,000
2012 Scheme – Batch 1								
Directors	09.12.2015	01.04.2017–08.12.2025	40.34	230,750	–	(250)	–	230,500
	09.12.2015	01.04.2018–08.12.2025	40.34	538,750	–	(65,250)	(22,625)	450,875
	09.12.2015	01.04.2019–08.12.2025	40.34	538,750	–	–	–	538,750
	09.12.2015	01.04.2020–08.12.2025	40.34	538,750	–	–	–	538,750
Employees	09.12.2015	01.04.2017–08.12.2025	40.34	406,900	–	(3,250)	–	403,650
	09.12.2015	01.04.2018–08.12.2025	40.34	1,030,850	–	(124,350)	(125,302)	781,198
	09.12.2015	01.04.2019–08.12.2025	40.34	1,727,750	–	(111,000)	(487,938)	1,128,812
	09.12.2015	01.04.2020–08.12.2025	40.34	1,727,750	–	–	(175,250)	1,552,500
Sub-total				6,740,250	–	(304,100)	(811,115)	5,625,035

Scheme/Grantee	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Outstanding as at 1 January 2019	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2019 (Note 2)
2012 Scheme – Batch 2								
Directors	28.3.2019	01.04.2020–27.03.2029	76.36	–	105,000	–	–	105,000
	28.3.2019	01.04.2021–27.03.2029	76.36	–	791,600	–	–	791,600
	28.3.2019	01.04.2022–27.03.2029	76.36	–	791,700	–	–	791,700
	28.3.2019	01.04.2023–27.03.2029	76.36	–	791,700	–	–	791,700
Employees	28.3.2019	01.04.2020–27.03.2029	76.36	–	1,061,300	–	–	1,061,300
	28.3.2019	01.04.2021–27.03.2029	76.36	–	2,606,500	–	–	2,606,500
	28.3.2019	01.04.2022–27.03.2029	76.36	–	2,608,100	–	–	2,608,100
	28.3.2019	01.04.2023–27.03.2029	76.36	–	2,608,100	–	–	2,608,100
Business Consultants	28.3.2019	01.04.2020–27.03.2029	76.36	–	241,000	–	–	241,000
	28.3.2019	01.04.2021–27.03.2029	76.36	–	241,000	–	–	241,000
	28.3.2019	01.04.2022–27.03.2029	76.36	–	241,000	–	–	241,000
	28.3.2019	01.04.2023–27.03.2029	76.36	–	241,000	–	–	241,000
Sub-total				–	12,328,000	–	–	12,328,000
Total				6,740,250	12,328,000	(304,100)	(811,115)	17,953,035

Notes:

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

2. A total number of 200,000 shares, representing 0.02% of the issued shares of the Company as at the date of this report are available for issue under the 2002 Scheme and a total number of 17,609,685 shares, representing 1.57% of the issued shares of the Company as at the date of this report, are available for issue under the 2012 Scheme. The vesting of certain part of the 17,609,685 share options is subject to the fulfilment of performance target.

3. The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised is approximately HK$74.32.

Directors' rights to acquire share

Pursuant to the Company's Share Option Schemes, the Company has granted options to subscribe for the Company's ordinary shares in favour of certain Directors. The interest of each Directors and chief executive in the share options of the Company as at 30 June 2019 were as follows:

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Outstanding as at 1 January 2019	Granted during the period (Note 2)	Exercised during the period (Note 2)	Lapsed during the period (Note 2)	Outstanding as at 30 June 2019
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
	28.03.2019	01.04.2021–27.03.2029	76.36	–	160,000	–	–	160,000
	28.03.2019	01.04.2022–27.03.2029	76.36	–	160,000	–	–	160,000
	28.03.2019	01.04.2023–27.03.2029	76.36	–	160,000	–	–	160,000
Cheung Yip Sang	09.12.2015	01.04.2017–08.12.2025	40.34	–	–	–	–	–
(Alias: Zhang Yesheng)	09.12.2015	01.04.2018–08.12.2025	40.34	133,000	–	–	–	133,000
(Note 3)	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
	28.03.2019	01.04.2021–27.03.2029	76.36	–	120,000	–	–	120,000
	28.03.2019	01.04.2022–27.03.2029	76.36	–	120,000	–	–	120,000
	28.03.2019	01.04.2023–27.03.2029	76.36	–	120,000	–	–	120,000
Wang Zizheng	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	–	15,000
(Note 3)	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
	28.03.2019	01.04.2021–27.03.2029	76.36	–	120,000	–	–	120,000
	28.03.2019	01.04.2022–27.03.2029	76.36	–	120,000	–	–	120,000
	28.03.2019	01.04.2023–27.03.2029	76.36	–	120,000	–	–	120,000

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Outstanding as at 1 January 2019	Granted during the period (Note 2)	Exercised during the period (Note 2)	Lapsed during the period (Note 2)	Outstanding as at 30 June 2019
Han Jishen	09.12.2015	01.04.2017–08.12.2025	40.34	250	–	(250)	–	–
(Note 3)	09.12.2015	01.04.2018–08.12.2025	40.34	105,250	–	(65,250)	(22,625)	17,375
	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
	28.03.2019	01.04.2021–27.03.2029	76.36	–	120,000	–	–	120,000
	28.03.2019	01.04.2022–27.03.2029	76.36	–	120,000	–	–	120,000
	28.03.2019	01.04.2023–27.03.2029	76.36	–	120,000	–	–	120,000
Liu Min	28.03.2019	01.04.2020–27.03.2029	76.36	–	90,000	–	–	90,000
(Note 3)	28.03.2019	01.04.2021–27.03.2029	76.36	–	90,000	–	–	90,000
	28.03.2019	01.04.2022–27.03.2029	76.36	–	90,000	–	–	90,000
	28.03.2019	01.04.2023–27.03.2029	76.36	–	90,000	–	–	90,000
Wang Dongzhi	09.12.2015	01.04.2017–08.12.2025	40.34	40,500	–	–	–	40,500
(Note 3)	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
	28.03.2019	01.04.2021–27.03.2029	76.36	–	106,600	–	–	106,600
	28.03.2019	01.04.2022–27.03.2029	76.36	–	106,700	–	–	106,700
	28.03.2019	01.04.2023–27.03.2029	76.36	–	106,700	–	–	106,700
Ma Zhixiang	09.12.2015	01.04.2017–08.12.2025	40.34	–	–	–	–	–
	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
	28.03.2019	01.04.2021–27.03.2029	76.36	–	20,000	–	–	20,000
	28.03.2019	01.04.2022–27.03.2029	76.36	–	20,000	–	–	20,000
	28.03.2019	01.04.2023–27.03.2029	76.36	–	20,000	–	–	20,000

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Outstanding as at 1 January 2019	Granted during the period (Note 2)	Exercised during the period (Note 2)	Lapsed during the period (Note 2)	Outstanding as at 30 June 2019
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
	28.03.2019	01.04.2021–27.03.2029	76.36	–	20,000	–	–	20,000
	28.03.2019	01.04.2022–27.03.2029	76.36	–	20,000	–	–	20,000
	28.03.2019	01.04.2023–27.03.2029	76.36	–	20,000	–	–	20,000
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
	28.03.2019	01.04.2021–27.03.2029	76.36	–	20,000	–	–	20,000
	28.03.2019	01.04.2022–27.03.2029	76.36	–	20,000	–	–	20,000
	28.03.2019	01.04.2023–27.03.2029	76.36	–	20,000	–	–	20,000
Yien Yu Yu, Catherine	28.03.2019	01.04.2020–27.03.2029	76.36	–	15,000	–	–	15,000
	28.03.2019	01.04.2021–27.03.2029	76.36	–	15,000	–	–	15,000
	28.03.2019	01.04.2022–27.03.2029	76.36	–	15,000	–	–	15,000
	28.03.2019	01.04.2023–27.03.2029	76.36	–	15,000	–	–	15,000
Total				1,847,000	2,480,000	(65,500)	(22,625)	4,238,875

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 2019 to 30 June 2019.
3. The vesting of share options is partly or wholly subject to the fulfilment of performance target.

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

Share Award Scheme

On 30 November 2018, the Company adopted the Share Award Scheme under which the shares of the Company (the "Awarded Shares") may be granted to selected employees (including, without limitation, any executive directors and independent non-executive directors) of any members of the Group (the "Selected Employees") pursuant to the terms of the Share Award Scheme and the trust deed of the Share Award Scheme. The Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for 10 years from the date, i.e. till 29 November 2028.

The aggregate number of Award Shares permitted to be granted under the Share Award Scheme is limited to 5% of the issued share capital of the Company from time to time. The maximum number of Awarded Share which may be awarded to each Selected Employee shall not in aggregate over 1% of the issued share capital of the Company from time to time.

When a Selected Employee has satisfied all vesting conditions, which might include service and/or performance conditions, specified by the Board at the time of making the award, shall grant to such Selected Employee the Awarded Shares at no consideration and in such number and on and subject to such terms and conditions as it may in its absolute discretion determine.

As at 30 June 2019, there were 2,415,100 shares of the Company held in the trust under the Share Award Scheme and no Awarded Shares have been granted during the period.

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

Disclosure of the Substantial Shareholders' Interests

The interests and short positions of substantial shareholders of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of Part XV of the SFO as at 30 June 2019 were as follows:

Name of shareholder	Capacity	Total interests in shares	Interests in shares pursuant to share options	Total aggregate interests in shares and underlying shares (Note 7)	Approximate percentage of the Company's total issued shares as at 30 June 2019
Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	369,175,534 (Notes 1,2,3&4)	1,060,000 (Note 5)	370,235,534 (L)	32.93%
Zhao Baoju ("Ms. Zhao")	Interest of controlled corporation and interest of spouse	369,175,534 (Notes 1,2,3&4)	1,060,000 (Note 5)	370,235,534 (L)	32.93%
LCNG	Interest of controlled corporation	369,175,534 (Notes 1,2&3)	–	369,175,534 (L)	32.84%
EIH	Interest of controlled corporation	369,175,534 (Notes 1&2)	–	369,175,534 (L)	32.84%
EGII	Beneficial owner and interest of controlled corporation	369,175,534 (Note 1)	–	369,175,534 (L)	32.84%
The Capital Group Companies, Inc.	Interest of controlled corporation	177,580,348 (Note 6)	–	177,580,348 (L)	15.79%
Capital Research and Management Company	Investment manager	177,580,348 (Note 6)	–	177,580,348 (L)	15.79%
Commonwealth Bank of Australia	Interest of controlled corporation	78,720,393	–	78,720,393 (L)	7.00%

Notes:

1. Of these shares, 39,926,534 shares are held by EIHL (a company wholly owned by EGII), EGII is deemed to be interested in shares in which EIHL is interested. EGII is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

2. On 30 November 2018, Mr. Wang and Ms. Zhao entered into an equity entrustment agreement with EIH, pursuant to which each of Mr. Wang and Ms. Zhao entrusted EIH to manage their respective shareholding of 50% in EGII till 31 December 2040. Pursuant to the agreement, EGII is controlled by EIH. Accordingly, EIH is deemed to be interested in the shares in which EGII is interested in (1) above.

3. EIH is a wholly owned subsidiary of LCNG, LCNG hence is deemed to be interested in the shares in which EIH is interested in (1) and (2) above.

4. LCNG is 100% wholly owned by Mr. Wang and Ms. Zhao, hence they are deemed to be interested in the shares in which LCNG is interested in (1), (2) and (3) above.

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

6. Of these shares, 177,580,348 shares are held by Capital Research and Management Company (a company wholly owned by The Capital Group Companies, Inc.).

7. (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 2019, 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 2019, 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.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased over-the-counter a total of 2,415,100 shares of the Company from Nomura International plc at a total consideration of HK$181,857,030.

Public Float

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

Loan Agreements Imposing Specific Performance Obligations on Controlling Shareholders

The Company issued 10-year senior notes on 13 May 2011 (the "2021 Senior Notes") with a principal amount of USD750 million (equivalent to approximately RMB4,863 million). The terms and conditions of the 2021 Senior Notes require Mr. Wang Yusuo, Ms. Zhao Baoju and any affiliate of any of them, the controlling shareholder of the Company, to retain their interests in the Company of at least 25% of the total issued share capital of the Company throughout the term of the agreement. The outstanding balance of the 2021 Senior Notes as at 30 June 2019 is USD366 million (equivalent to approximately RMB2,499 million).

The Company issued two 5-year bonds on 23 October 2014 (the "2019 Unsecured Bonds") and on 24 July 2017 (the "2022 Unsecured Bonds") which were due on 2019 and 2022 respectively. The terms and conditions of these two bonds required Mr. Wang Yusuo, Ms. Zhao Baoju and any affiliate of any of them, the controlling shareholder of the Company, to retain their interests in the Company of at least 20% of the total issued share capital of the Company throughout the terms of the bonds. The principal amounts of these two bonds issued are USD400 million (equivalent to approximately RMB2,460 million) and USD600 million (equivalent to RMB4,066 million). As at 30 June 2019, the outstanding balances are USD64.8 million (equivalent to approximately RMB445 million) and USD600 million (equivalent to RMB4,106 million) respectively.

Moreover, the Company entered into a club loan agreement with various banks in the amount of USD300 million (equivalent to RMB2,059 million) on 23 November 2018 for a term of three years. The terms and conditions of the club loan agreement requires EGII, the controlling shareholder of the Company, to retain its interest in the Company of at least 20% of the total issued share capital of the Company throughout the terms of the loan agreement, or Mr. Wang Yusuo and Ms. Zhao Baoju collectively to retain their interest directly or indirectly in the Company of at least 20% of the total issued share capital of the Company throughout the terms of the loan agreement and remained as the single largest group of direct or indirect holder of the issued share capital of the Company. As at 30 June 2019, the outstanding balances are USD300 million (equivalent to RMB2,062 million).

By order of the Board
WANG Yusuo
Chairman

Hong Kong, 22 August 2019

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 29 to 72, which comprise the condensed consolidated statement of financial position as of 30 June 2019 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
22 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 RMB million (unaudited)	2018 RMB million (unaudited)
Revenue	3	**35,344**	26,530
Cost of sales		**(29,746)**	(21,868)
Gross profit		**5,598**	4,662
Other income	4	**373**	608
Other gains and losses	5	**793**	(598)
Distribution and selling expenses		**(421)**	(384)
Administrative expenses		**(1,397)**	(1,189)
Share of results of associates		**190**	109
Share of results of joint ventures		**242**	261
Finance costs	6	**(375)**	(267)
Profit before tax	7	**5,003**	3,202
Income tax expense	8	**(1,058)**	(893)
Profit for the period		**3,945**	2,309
Other comprehensive income (expense)			
Items that have been reclassified or may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		**–**	1
Release of exchange reserve to profit or loss upon deregistration / disposal of subsidiaries		**3**	(40)
Other comprehensive income (expense) for the period		**3**	(39)
Total comprehensive income for the period		**3,948**	2,270
Profit for the period attributable to:			
Owners of the Company		**3,362**	1,782
Non-controlling interests		**583**	527
		3,945	2,309
Total comprehensive income for the period attributable to:			
Owners of the Company		**3,365**	1,743
Non-controlling interests		**583**	527
		3,948	2,270

	Notes	RMB	RMB
Earnings per share	10		
Basic		**2.99**	1.64
Diluted		**2.99**	1.64

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	**At 30 June 2019 RMB million (unaudited)**	At 31 December 2018 RMB million (audited)
Non-current Assets			
Property, plant and equipment	11	**33,958**	31,073
Right-of-use assets	11	**2,146**	–
Prepaid lease payments	11	**–**	1,401
Investment properties	11	**267**	265
Goodwill		**2,270**	2,248
Intangible assets	12	**3,301**	3,037
Interests in associates		**3,191**	3,049
Interests in joint ventures		**3,585**	3,620
Other receivables	14	**31**	145
Financial assets at fair value through profit or loss ("FVTPL")	13	**5,146**	4,845
Equity instruments at fair value through other comprehensive income ("FVTOCI")		**119**	112
Amounts due from associates	16	**289**	353
Amounts due from joint ventures	17	**4**	68
Deferred tax assets		**1,204**	1,159
Deposits paid for investments		**62**	190
Deposits paid for acquisition of property, plant and equipment, land use rights and right of operation		**79**	171
Restricted bank deposits	15	**365**	639
		56,017	52,375
Current Assets			
Inventories		**1,348**	1,331
Trade and other receivables	14	**7,614**	8,560
Contract assets		**795**	612
Prepaid lease payments	11	**–**	39
Financial assets at FVTPL	13	**239**	735
Amounts due from associates	16	**460**	523
Amounts due from joint ventures	17	**865**	1,523
Amounts due from related companies	18	**177**	231
Restricted bank deposits	15	**94**	62
Cash and cash equivalents		**7,742**	7,923
		19,334	21,539

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	At 30 June 2019 RMB million (unaudited)	At 31 December 2018 RMB million (audited)
Current Liabilities			
Trade and other payables	19	**7,000**	7,103
Contract liabilities		**10,029**	10,490
Deferred income		**29**	25
Amounts due to associates	16	**146**	351
Amounts due to joint ventures	17	**891**	1,693
Amounts due to related companies	18	**871**	793
Taxation payables		**991**	782
Dividend payable		**1,176**	–
Lease liabilities		**102**	–
Bank and other loans – due within one year	20	**5,359**	8,621
Corporate bonds	21	**2,499**	2,497
Unsecured bonds		**445**	443
Financial liabilities at FVTPL	13	**245**	219
		29,783	33,017
Net Current Liabilities		**(10,449)**	(11,478)
Total Assets less Current Liabilities		**45,568**	40,897
Capital and Reserves			
Share capital	22	**116**	116
Reserves		**23,354**	21,269
Equity attributable to owners of the Company		**23,470**	21,385
Non-controlling interests		**4,541**	4,169
Total Equity		**28,011**	25,554
Non-current Liabilities			
Contract liabilities		**3,277**	3,240
Deferred income		**560**	520
Amounts due to joint ventures	17	**600**	970
Lease liabilities		**501**	–
Bank and other loans – due after one year	20	**2,779**	2,101
Corporate bonds	21	**1,494**	–
Senior notes		**2,499**	2,491
Unsecured bonds		**4,106**	4,096
Financial liabilities at FVTPL	13	**454**	924
Deferred tax liabilities		**1,287**	1,001
		17,557	15,343
		45,568	40,897

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

Six months ended 30 June 2019 (unaudited)

	Equity attributable to owners of the Company												
	Share capital RMB million (Note 22)	Treasury stocks RMB million (Note 23)	Share premium RMB million	Special reserve RMB million (note a)	Revaluation reserve RMB million	Share options reserve RMB million	Exchange reserve RMB million	Surplus reserve fund RMB million (note b)	Designated safety fund RMB million (note c)	Retained earnings RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 1 January 2019	116	–	2,614	(92)	22	78	(3)	2,414	60	16,176	21,385	4,169	25,554
Profit for the period	–	–	–	–	–	–	–	–	–	3,362	3,362	583	3,945
Other comprehensive income for the period	–	–	–	–	–	–	3	–	–	–	3	–	3
Total comprehensive income for the period	–	–	–	–	–	–	3	–	–	3,362	3,365	583	3,948
Recognition of equity-settled share-based payment (Note 23)	–	–	–	–	–	26	–	–	–	–	26	–	26
Issue of ordinary shares on exercise of share options (Note 23)	–	–	16	–	–	(5)	–	–	–	–	11	–	11
Purchase of shares under Share Award Scheme	–	(151)	–	–	–	–	–	–	–	–	(151)	–	(151)
Acquisition of subsidiaries and businesses (Notes 24 & 25)	–	–	–	–	–	–	–	–	–	–	–	170	170
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(1)	(1)
Acquisition of additional interests in a subsidiary (Note 28)	–	–	–	10	–	–	–	–	–	–	10	(110)	(100)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	55	55
Dividends appropriation (Note 9)	–	–	–	–	–	–	–	–	–	(1,176)	(1,176)	–	(1,176)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(325)	(325)
Transfer to surplus reserve fund	–	–	–	–	–	–	–	135	–	(135)	–	–	–
At 30 June 2019	116	(151)	2,630	(82)	22	99	–	2,549	60	18,227	23,470	4,541	28,011

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

Six months ended 30 June 2018 (unaudited)

	Equity attributable to owners of the Company											
	Share capital RMB million (Note 22)	Share premium RMB million	Special reserve RMB million (note a)	Revaluation reserve RMB million	Share options reserve RMB million	Exchange reserve RMB million	Surplus reserve fund RMB million (note b)	Designated safety fund RMB million (note c)	Retained earnings RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 1 January 2018 (audited)	112	72	(92)	(29)	74	37	2,082	59	14,637	16,952	3,265	20,217
Adjustments	–	–	–	45	–	–	–	–	12	57	–	57
At 1 January 2018 (restated)	112	72	(92)	16	74	37	2,082	59	14,649	17,009	3,265	20,274
Profit for the period	–	–	–	–	–	–	–	–	1,782	1,782	527	2,309
Other comprehensive income (expense) for the period												
– Exchange differences on translating foreign operations	–	–	–	–	–	1	–	–	–	1	–	1
– Release of exchange reserve to profit or loss upon disposal of subsidiaries	–	–	–	–	–	(40)	–	–	–	(40)	–	(40)
Total comprehensive income for the period	–	–	–	–	–	(39)	–	–	1,782	1,743	527	2,270
Recognition of equity-settled share-based payment (Note 23)	–	–	–	–	9	–	–	–	–	9	–	9
Issue of ordinary shares on conversion of convertible bonds	–	79	–	–	–	–	–	–	–	79	–	79
Issue of ordinary shares on exercise of share options (Note 23)	–	33	–	–	(10)	–	–	–	–	23	–	23
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(35)	(35)
Acquisition of subsidiaries and businesses	–	–	–	–	–	–	–	–	–	–	94	94
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	63	63
Dividends appropriation (Note 9)	–	–	–	–	–	–	–	–	(952)	(952)	–	(952)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(335)	(335)
Transfer to surplus reserve fund	–	–	–	–	–	–	175	–	(175)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	–	–	1	(1)	–	–	–
At 30 June 2018	112	184	(92)	16	73	(2)	2,257	60	15,303	17,911	3,579	21,490

Notes:

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 RMB million (unaudited)	2018 RMB million (unaudited)
Net cash generated from operating activities		**4,294**	1,909
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(2,815)**	(2,502)
Purchases of wealth management products		**(11,126)**	(10,304)
Redemptions of wealth management products		**11,175**	11,005
Additions of restricted bank deposits		**(763)**	(871)
Release of restricted bank deposits		**1,005**	1,053
Net cash outflow on acquisition of subsidiaries and businesses	24 & 25	**(171)**	(246)
Net cash outflow on acquisition of an additional interest in a subsidiary	28	**(100)**	–
Net cash inflow on disposal of subsidiaries		**45**	43
Investments in associates		**(48)**	(534)
Investments in joint ventures		**(37)**	(31)
Interest received		**80**	74
Settlement of financial assets / liabilities at FVTPL		**387**	(125)
Dividends received from associates		**43**	34
Dividends received from joint ventures		**279**	279
Dividends received from financial assets at FVTPL		**–**	249
Advances to joint ventures		**(12)**	(453)
Amounts repaid by joint ventures		**819**	127
Other investing activities		**83**	(23)
Net cash used in investing activities		**(1,156)**	(2,225)

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB million	RMB million
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
New bank loans raised	**5,408**	4,774
Repayment of bank loans	**(8,074)**	(1,838)
Amounts repaid to banks and other financial institutions by ENN Finance Company Limited (“ENN Finance”)	**(7,324)**	(7,850)
Advances from banks and other financial institutions by ENN Finance	**7,324**	7,850
Net proceeds from ordinary shares issued on exercise of share options	**11**	23
Purchase of shares under Share Award Scheme	**(151)**	–
Proceeds from issuance of corporate bonds	**1,494**	–
Proceeds used in redemption of convertible bonds at FVTPL	**–**	(3,771)
Repayment of corporate bonds	**–**	(500)
Repayment of lease liabilities	**(49)**	–
Dividends paid to non-controlling shareholders	**(325)**	(335)
Capital contribution from non-controlling shareholders	**55**	63
Interest paid	**(373)**	(231)
Advances from joint ventures	**45**	518
Amounts repaid to joint ventures	**(1,128)**	(22)
Amounts repaid to associates	**(229)**	(76)
Other financing activities	**(3)**	(1)
Net cash used in financing activities	**(3,319)**	(1,396)
Net decrease in cash and cash equivalents	**(181)**	(1,712)
Effect of foreign exchange rate changes	**–**	3
Cash and cash equivalents at the beginning of the period included in assets classified as held for sale	**–**	3
Cash and cash equivalents at the beginning of the period	**7,923**	7,972
Cash and cash equivalents at the end of the period	**7,742**	6,266

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's net current liabilities of approximately RMB10,449 million as at 30 June 2019. A wholly-owned subsidiary of the Company has been approved by China Securities Regulatory Commission on 10 December 2018 to issue corporate bonds amounting to RMB5,000 million and issued corporate bonds of RMB1,500 million in the current period. Except for the unutilised issuance quota of the corporate bonds, the Group has unutilised credit facilities of approximately RMB10,374 million at the date of approval of the condensed consolidated financial statements, of which approximately RMB7,228 million are subject to renewal within twelve months from the end of the reporting period. The Directors are therefore satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared on a going concern basis.

2. Principal Accounting Policies

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

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

In the current period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

2. Principal Accounting Policies *(continued)*

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and / or on the disclosures set out in these condensed consolidated financial statements.

Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 "Leases", and the related interpretations.

Key change in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted for on a portfolio basis when the Group reasonably expects that the effects on the condensed consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 Leases *(continued)*

Key change in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee *(continued)*

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, expect for those that are classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted for under HKFRS 9 “Financial Instruments” and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 Leases *(continued)*

Key change in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee *(continued)*

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments less any lease incentives receivable;
- variable lease payments that depend on an index or a rate; and
- amounts expected to be paid under residual value guarantees.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 Leases *(continued)*

Key change in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee *(continued)*

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 "Revenue from Contracts with Customers" to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 Leases *(continued)*

Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee

The Group has applied HKFRS 16 using the modified retrospective approach with the cumulative effect recognised at the date of initial application, 1 January 2019. The comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in the PRC. Specifically, discount rate for certain leases of machinery and equipment in the PRC was determined on a portfolio basis; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8 (b) (ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 5.03% to 5.22%.

	At 1 January 2019 RMB million
Operating lease commitments disclosed as at 31 December 2018	839
Lease liabilities discounted at relevant incremental borrowing rates	646
Less: Recognition exemption – short-term leases	(14)
Lease liabilities as at 1 January 2019	632
Analysed as:	
Current portion	96
Non-current portion	536

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 Leases *(continued)*

Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee *(continued)*

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	Right-of-use assets RMB million
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		632
Reclassified from prepaid lease payments	(a)	1,440
		2,072
By class:		
Prepaid lease payments		1,440
Leasehold lands and buildings		580
Motor vehicles		48
Equipment		4

Note:

(a) Upon initial application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB39 million and RMB1,401 million respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but accounts for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Upon initial application of HKFRS 16, new lease contracts entered into but commenced after the date of initial application relating to the same underlying assets under existing lease contracts are accounted for as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective on 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

Effective on 1 January 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

There is no impact of transition to HKFRS 16 on retained earnings at 1 January 2019.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on HKFRS 16 Leases *(continued)*

Transition and summary of effects arising from initial application of HKFRS 16 (continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 RMB million	Adjustments RMB million	Carrying amounts under HKFRS 16 at 1 January 2019 RMB million
Non-current Assets			
Prepaid lease payments	1,401	(1,401)	–
Right-of-use assets	–	2,072	2,072
Current Assets			
Prepaid lease payments	39	(39)	–
Current Liabilities			
Lease liabilities	–	96	96
Non-current Liabilities			
Lease liabilities	–	536	536

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening condensed consolidated statement of financial position as at 1 January 2019 as disclosed above.

3. Segment Information

Information reported to the chief operating decision makers, being the chief executive officer of the Company (the "CEO"), for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services.

During the reporting period, the segment information presented to CEO was re-grouped. The "sales of piped gas" and "vehicle gas refuelling stations" were combined into "retail gas sales business", while the sales of gas appliances and material previously stated in segment "sales of gas appliances" and "sales of material", are now combined into a new segment named "value added services and sales of products". Accordingly, the Group's operating and reportable segment under HKFRS 8 "Operating Segments" are retail gas sales business, sales of integrated energy and services, wholesale of gas, construction and installation, and value added services and sales of products. Segment profit reviewed by the CEO represents the gross profit earned by each segment. The Group restated the corresponding segment information for the six months ended 30 June 2018.

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 CEO for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Disaggregation of revenue

	Six months ended 30 June 2019			Six months ended 30 June 2018 (restated)		
	Sales of goods RMB million	Construction services RMB million	Total RMB million	Sales of good RMB million	Construction services RMB million	Total RMB million
Types of goods or services						
Retail gas sales business	20,332	–	20,332	16,301	–	16,301
Sales of integrated energy and services	788	231	1,019	316	53	369
Wholesale of gas	9,330	–	9,330	6,595	–	6,595
Construction and installation	–	3,626	3,626	–	2,805	2,805
Value added services and sales of products	897	140	1,037	277	183	460
Total	31,347	3,997	35,344	23,489	3,041	26,530

CEO makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as CEO does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

3. Segment Information *(continued)*

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

Six months ended 30 June 2019

	Retail gas sales business RMB million	Sales of integrated energy and services RMB million	Wholesale of gas RMB million	Construction and installation RMB million	Value added services and sales of products RMB million	Consolidation RMB million
Segment revenue	26,787	1,148	15,523	4,341	3,397	51,196
Inter-segment sales	(6,455)	(129)	(6,193)	(715)	(2,360)	(15,852)
Revenue from external customers	20,332	1,019	9,330	3,626	1,037	35,344
Segment profit before depreciation and amortisation	3,262	264	41	2,039	660	6,266
Depreciation and amortisation	(488)	(58)	(3)	(118)	(1)	(668)
Segment profit	2,774	206	38	1,921	659	5,598

Six months ended 30 June 2018 (restated)

	Retail gas sales business RMB million	Sales of integrated energy and services RMB million	Wholesale of gas RMB million	Construction and installation RMB million	Value added services and sales of products RMB million	Consolidation RMB million
Segment revenue	21,090	376	10,181	3,390	1,879	36,916
Inter-segment sales	(4,789)	(7)	(3,586)	(585)	(1,419)	(10,386)
Revenue from external customers	16,301	369	6,595	2,805	460	26,530
Segment profit before depreciation and amortisation	2,879	42	194	1,841	224	5,180
Depreciation and amortisation	(421)	(14)	(2)	(80)	(1)	(518)
Segment profit	2,458	28	192	1,761	223	4,662

Substantially all of the Group's revenue are generated from the PRC. For the six months ended 30 June 2019, the revenues from PRC and overseas were RMB35,251 million (six months ended 30 June 2018: RMB26,494 million) and RMB93 million (six months ended 30 June 2018: RMB36 million), respectively.

4. Other Income

	Six months ended 30 June	
	2019	2018
	RMB million	RMB million
Other income mainly includes:		
Incentive subsidies (note)	**120**	143
Dividends income from financial assets at FVTPL	**62**	249
Interest income	**80**	74
Rental income from equipment	**21**	24
Sale of proprietary technology	**3**	20

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	
	2019	2018
	RMB million	RMB million
Net gain (loss) of:		
– Convertible bonds at FVTPL	**–**	(249)
– Financial assets / liabilities at FVTPL (Notes 13 & 29)	**827**	(179)
Loss on foreign exchange, net (note)	**(23)**	(312)
Impairment losses, net of reversal:		
– Trade and other receivables	**(39)**	(59)
– Contract assets	**(2)**	–
– Amounts due from associates / joint ventures / related companies	**15**	–
Net (loss) gain on disposal of:		
– Property, plant and equipment	**(16)**	4
– Right-of-use assets / prepaid lease payments	**17**	2
– Subsidiaries	**–**	3
– An associate	**(16)**	–
Bargain purchase gain on acquisition of businesses (Note 24)	**15**	–
Release of exchange reserve to profit or loss upon deregistration / disposal of subsidiaries	**(3)**	40
Gain on redemption of convertible bonds at FVTPL	**–**	34
Gain on remeasurement of interests in joint ventures previously held (Note 24)	**11**	118
Change in fair value of investment properties (Note 11)	**7**	–
	793	(598)

Note: Included in the amount for the six months ended 30 June 2019 is an exchange loss of approximately RMB1 million (six months ended 30 June 2018: approximately RMB268 million) arising from the translation of senior notes, unsecured bonds and bank loans denominated in United States Dollar ("USD") and Hong Kong Dollar ("HK$") to RMB.

6. Finance Costs

	Six months ended 30 June	
	2019	2018
	RMB million	RMB million
Interest on:		
Bank and other loans	**207**	81
Senior notes	**77**	73
Corporate bonds	**69**	97
Unsecured bonds	**77**	72
Lease liabilities	**18**	–
	448	323
Less: Amount capitalised under construction in progress	**(73)**	(56)
	375	267

7. Profit Before Tax

	Six months ended 30 June	
	2019	2018
	RMB million	RMB million
Profit before tax has been arrived at after charging:		
Depreciation and amortisation:		
– property, plant and equipment	**637**	545
– intangible assets	**111**	55
– right-of-use assets	**86**	–
Total depreciation and amortisation (note)	**834**	600
Release of prepaid lease payments	**–**	19

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

	Six months ended 30 June	
	2019	2018
	RMB million	RMB million
Depreciation and amortisation included in:		
Cost of sales	**668**	518
Administrative expenses	**142**	70
Distribution and selling expenses	**24**	12
	834	600

8. Income Tax Expense

	Six months ended 30 June	
	2019	2018
	RMB million	RMB million
Current tax	**853**	940
Withholding tax	**40**	50
	893	990
Deferred tax	**165**	(97)
	1,058	893

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

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

9. Dividend

The final dividend in respect of fiscal year 2018 of HK$1.19 (equivalent to approximately RMB1.04) per ordinary share (six months ended 30 June 2018: final dividend in respect of fiscal year 2017 of HK$1.08 (equivalent to approximately RMB0.90) per ordinary share) amounting to approximately RMB1,176 million (six months ended 30 June 2018: RMB952 million) were declared on 21 March 2019 and paid on 19 July 2019.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: 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	
	2019	2018
	RMB million	RMB million
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**3,362**	1,782

	Six months ended 30 June	
	2019	2018
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,123,248**	1,084,291
Effect of dilutive potential ordinary shares:		
– share options	**2,741**	2,914
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,125,989**	1,087,205

Diluted earnings per share for the six months ended 30 June 2019 and 2018 are calculated assuming all dilutive potential ordinary shares were converted.

11. Property, Plant and Equipment, Right-Of-Use Assets, Prepaid Lease Payments and Investment Properties

During the six months ended 30 June 2019, the Group acquired property, plant and equipment and right-of-use assets amounting to approximately RMB2,861 million and RMB158 million (six months ended 30 June 2018: property, plant and equipment of RMB2,546 million and prepaid lease payments of RMB28 million) respectively.

In addition, through acquisition of subsidiaries and businesses, the Group's property, plant and equipment and right-of-use assets increased by approximately RMB695 million and RMB92 million (six months ended 30 June 2018: property, plant and equipment of RMB325 million and prepaid lease payments of RMB36 million) respectively during the current period.

During the six months ended 30 June 2019, the Group entered into certain lease agreements. On lease commencement, the Group recognised right-of-use assets of RMB20 million and lease liabilities of RMB20 million.

The Group's investment properties as at 30 June 2019 and 31 December 2018 were valued by an independent firm of professional valuers on an open market value basis. The increase in fair value of investment properties of RMB7 million was recognised in profit or loss for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

12. Intangible Assets

During the six months ended 30 June 2019, the Group acquired intangible assets amounting to approximately RMB24 million (six months ended 30 June 2018: RMB24 million).

In addition, through acquisition of subsidiaries and businesses, the Group's intangible assets increased by approximately RMB351 million (six months ended 30 June 2018: RMB550 million).

13. Financial Assets / Liabilities at FVTPL

	At 30 June 2019 RMB million	At 31 December 2018 RMB million
Financial assets measured at FVTPL		
Foreign currency derivative contracts (note a)	**27**	6
Commodity derivative contracts (Note 29)	**517**	225
Listed equity interest in Shanghai Dazhong Public Utilities (Group) Co., Ltd ("Shanghai Utilities") (note b)	**333**	310
1.13% equity interest in Sinopec Marketing Co., Ltd (note c)	**4,136**	4,177
Unlisted wealth management products	**–**	49
Total return swap (note d)	**–**	463
Other unlisted equity securities (note e)	**372**	350
	5,385	5,580
Financial liabilities measured at FVTPL		
Foreign currency derivative contracts (note a)	**(9)**	(68)
Commodity derivative contracts (Note 29)	**(690)**	(1,075)
	(699)	(1,143)
Analysed for reporting purpose as:		
Assets		
Current portion	**239**	735
Non-current portion	**5,146**	4,845
Liabilities		
Current portion	**245**	219
Non-current portion	**454**	924

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

	Six months ended 30 June	
	2019	2018
	RMB million	RMB million
Net unrealised gain (loss)		
Foreign currency derivative contracts (note a)	**80**	(21)
Commodity derivative contracts (Note 29)	**647**	62
Listed equity interest in Shanghai Utilities (note b)	**23**	(40)
1.13% equity interest in Sinopec Marketing Co., Ltd (note c)	**(41)**	(55)
Other unlisted equity securities (note e)	**22**	–
	731	(54)
Net realised gain (loss)		
Foreign currency derivative contracts (note a)	**(43)**	(123)
Commodity derivative contracts (Note 29)	**139**	(2)
	96	(125)
	827	(179)

Notes:

a. The Group is exposed to foreign exchange risk mainly arising from various bonds and bank loans denominated in USD. To manage and mitigate the foreign exchange exposure, the Group entered into various foreign currency derivative contracts (the "Foreign Currency Derivatives") with certain financial institutions. As at 30 June 2019, the Foreign Currency Derivatives have a total notional amount of USD790 million (31 December 2018: USD700 million), of which the maturity dates match to the maturity dates of certain debts denominated in USD. The Foreign Currency Derivatives will enable the Group to buy USD at the predetermined RMB/USD exchange rates on the maturity dates. The Foreign Currency Derivatives are not designated as hedging instruments. Accordingly, they are classified and accounted for as financial instruments at FVTPL.

b. The above listed investment represents 4.38% of the total issued share capital of Shanghai Utilities (1635.HK).

c. The above investment represents 1.13% unlisted equity interest in Sinopec Marketing Co., Ltd ("Sinopec Marketing"). During the current period, the Group recognised a dividend income of approximately RMB62 million (six months ended 30 June 2018: RMB249 million) from Sinopec Marketing.

d. On 30 November 2018, the Company entered into a total return swap ("TRS") contract with a third party financial institution and the financial institution may purchase up to 7,000,000 of the Company's shares based on certain limitations of market conditions and its own service excellence. The Group provided HK$525 million to the financial institution in order to reduce the service charges by the financial institution. That TRS arrangement has been concluded by 30 June 2019. 2,415,100 of the Company's shares were purchased by the financial institution under the TRS contract and subsequently sold to the Trust under the Share Award Scheme and were accounted for as treasury stocks amounted to RMB151 million. Remaining cash held by the financial institution was returned to the Group during current period.

e. The above unlisted investments represent investments in unlisted equity securities issued by private entities.

14. Trade and Other Receivables

The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on invoice date at the end of the reporting period:

	At 30 June 2019 RMB million	At 31 December 2018 RMB million
Within three months	**1,817**	1,905
4 to 6 months	**252**	164
7 to 9 months	**201**	230
10 to 12 months	**69**	171
More than one year	**356**	216
Total trade receivables	**2,695**	2,686
Bills receivable (note a)	**1,785**	1,773
Other receivables	**460**	331
Loan receivables	**117**	379
Deductible input value added tax and prepayment of other taxes and charges	**1,431**	1,363
Investment in wealth management products	**–**	13
Advances to suppliers and prepayments	**1,157**	2,160
Total trade and other receivables	**7,645**	8,705
Analysed for reporting purpose as:		
Current portion	**7,614**	8,560
Non-current portion (note b)	**31**	145

Notes:

a. The bills receivable were endorsed by PRC banks for guarantee payments and the default risk is considered to be minimal.

b. The balance that the Directors expect to recover after one year from the end of the reporting period is initially recognised by using an effective interest rate of 4.75% (31 December 2018: 4.75%) per annum.

15. Restricted Bank Deposits

The restricted bank deposits carry fixed interest rate ranged from 0.30% to 3.75% (31 December 2018: 0.30% to 3.75%) per annum. Except for the mandatory reserves in the People's Bank of China ("PBOC") amounting to RMB327 million (31 December 2018: RMB539 million), other restricted bank deposits will be released upon the settlement of bank loans, the expiry of purchase contracts or operation rights. The mandatory reserves in the PBOC classified as non-current assets are deposits placed by ENN Finance, a wholly-owned subsidiary of the Company, and the reserves amount is subject to change with respect to the savings accepted by ENN Finance and the PBOC reserve rate is adjusted from time to time.

16. Amounts Due from / to Associates

Included in the amounts due from / to associates are trade receivables, net of impairment, amounting to RMB404 million (31 December 2018: RMB350 million) and trade payables amounting to RMB40 million (31 December 2018: RMB17 million) and the aged analysis based on invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follows:

	At 30 June 2019 RMB million	At 31 December 2018 RMB million
Trade receivables due from associates		
Within three months	**147**	228
4 to 6 months	**47**	40
7 to 9 months	**140**	12
10 to 12 months	**17**	24
More than one year	**53**	46
	404	350
Trade payables due to associates		
Within three months	**37**	15
4 to 6 months	**1**	–
7 to 9 months	**–**	–
10 to 12 months	**–**	1
More than one year	**2**	1
	40	17

17. Amounts Due from / to Joint Ventures

Included in the amounts due from / to joint ventures are trade receivables, net of impairment, amounting to RMB533 million (31 December 2018: RMB461 million) and trade payables amounting to RMB546 million (31 December 2018: RMB635 million) and the aged analysis based on invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follow:

	At 30 June 2019 RMB million	At 31 December 2018 RMB million
Trade receivables due from joint ventures		
Within three months	**351**	357
4 to 6 months	**92**	15
7 to 9 months	**21**	16
10 to 12 months	**7**	7
More than one year	**62**	66
	533	461
Trade payables due to joint ventures		
Within three months	**499**	584
4 to 6 months	**17**	20
7 to 9 months	**8**	9
10 to 12 months	**6**	4
More than one year	**16**	18
	546	635

18. Amounts Due from / to Related Companies

Included in the amounts due from / to related companies are trade receivables, net of impairment, amounting to RMB158 million (31 December 2018: RMB215 million) and trade payables amounting to RMB844 million (31 December 2018: RMB760 million) and the aged analysis based on invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follow:

	At 30 June 2019 RMB million	At 31 December 2018 RMB million
Trade receivables due from related companies		
Within three months	**31**	132
4 to 6 months	**39**	16
7 to 9 months	**17**	13
10 to 12 months	**9**	19
More than one year	**62**	35
	158	215
Trade payables due to related companies		
Within three months	**511**	516
4 to 6 months	**116**	115
7 to 9 months	**118**	54
10 to 12 months	**16**	17
More than one year	**83**	58
	844	760

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

19. 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 2019 RMB million	At 31 December 2018 RMB million
Within three months	**3,807**	3,253
4 to 6 months	**610**	930
7 to 9 months	**251**	121
10 to 12 months	**82**	86
More than one year	**716**	705
Trade payables	**5,466**	5,095
Accrued charges and other payables	**1,534**	2,008
	7,000	7,103

20. Bank and Other Loans

During six months ended 30 June 2019, the Group obtained new bank loans in the amount of RMB5,408 million (six months ended 30 June 2018: RMB4,774 million) and made repayments in the amount of RMB8,074 million (six months ended 30 June 2018: RMB1,838 million). The loans bear interest at the range from 2.49% to 6.63% (31 December 2018: 2.83% to 7.50%) per annum. These proceeds were used to finance the capital expenditure and general working capital of the Group.

At 30 June 2019, certain assets of the Group with aggregate carrying value of RMB145 million (31 December 2018: RMB163 million) were pledged as security for bank and other loans, bills facilities and contracts granted to the Group, its associates and joint ventures.

In addition, the Group has also pledged its rights to receive construction and installation and gas supply fee income of certain subsidiaries in favour of banks to secure banking facilities amounting to RMB810 million (31 December 2018: RMB810 million) granted to the Group, of which RMB202 million (31 December 2018: RMB432 million) has been utilised up to 30 June 2019.

21. Corporate Bonds

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

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

b. Corporate bonds issued in 2019 (the "2019 Corporate Bonds")

On 22 January 2019, Xinao (China) issued the 2019 Corporate Bonds of RMB500 million. The amount is unsecured and carries a fixed interest rate of 4.19% per annum and is repayable on 22 January 2022. The interest is payable to the holders of the bond on a yearly basis. The net proceeds after deducting the issuance costs, amounted to RMB498 million. The bond was listed on the Shanghai Stock Exchange on 20 February 2019. The effective interest rate of the bond is approximately 4.36% per annum after the adjustment for transaction costs.

On 8 March 2019, Xinao (China) issued the 2019 Corporate Bonds of RMB1,000 million. The amount is unsecured and carries a fixed interest rate of 4.20% per annum and is repayable on 8 March 2022. The interest is payable to the holders of the bond on a yearly basis. The net proceeds after deducting the issuance costs, amounted to RMB996 million. The bond was listed on the Shanghai Stock Exchange on 29 March 2019. The effective interest rate of the bond is approximately 4.36% per annum after the adjustment for transaction costs.

22. Share Capital

During the six months ended 30 June 2019, 304,100 shares (six months ended 30 June 2018: 725,000 shares) were issued at the exercise price of HK$40.34 per ordinary share in relation to the exercise of outstanding share options as set out in Note 23. These shares rank pari passu with the existing shares in all respects.

On 15 February 2018, the Company issued 1,625,327 ordinary shares at a price of HK$47.73 per ordinary share to satisfy the conversion rights attached to the convertible bonds.

Save as disclosed above and in Note 23, none of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities up to 30 June 2019.

23. Share Based Payments Transactions

The Company has adopted a share award scheme pursuant to the board resolution of the Company dated 30 November 2018 (the "Share Award Scheme").

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. Share Award Scheme

Pursuant to the Share Award Scheme, the Company had contracted with a trustee to establish a trust (the "Trust") on 12 March 2019. The board of the Directors (the "Board") may from time to time during the effective period of the Share Award Scheme (a term of 10 years commencing on the adoption of this scheme or early terminated) contribute funds to the Trust and instruct the trustee to purchase shares of the Company on the Stock Exchange or in off-market transactions. Shares purchased and held by the Trust are non-transferrable and have no voting rights. Shares will be granted to selected employees of any members of the Group pursuant to the terms and trust deed of the Share Award Scheme. Vesting of the shares granted to selected employees is conditional upon the fulfilment of service and / or performance as specified by the Board.

On 3 May 2019, the trustee, pursuant to the terms and trust deed of the Share Award Scheme, purchased a total of 2,415,100 shares of the Company over-the-counter from the financial institution under the TRS contract. The cost of the shares purchased was recognised in equity as treasury stocks. As at 30 June 2019, the Board had neither decided or selected employee nor granted any awarded shares.

b. Scheme 2012

On 9 December 2015, the Company granted share options to the Directors and certain employees (the "2015 Grantees") to subscribe for a total of 12,000,000 ordinary shares of the Company under the Scheme 2012. Among the share options granted above, 2,659,000 share options were granted to the Directors and the remaining were granted to certain employees of the Group. Vesting of the share options is conditional upon the fulfilment of certain vesting conditions as set out in the respective offer letters of the 2015 Grantees, which may involve fulfilment of performance rating.

On 28 March 2019, the Company granted share options to Directors and certain employees of the Company, and business consultants who contribute to the success of the Company (the "2019 Grantees") to subscribe for a total of 12,328,000 ordinary shares of the Company under the Scheme 2012. Among the share options granted above, 2,480,000 share options were granted to the Directors and the remaining were granted to certain employees of the Group and business consultants. Vesting of the share options is conditional upon the fulfilment of certain vesting conditions as set out in the respective offer letters of the 2019 Grantees, which may involve fulfilment of performance rating.

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

23. Share Based Payments Transactions *(continued)*

b. Scheme 2012 *(continued)*

The following tables disclose details of the Company's share options held by the grantees and movements in such holdings under the share option scheme during the current period:

					Number of options				
		Date of grant	Exercise period	Exercise price (HK$)	Outstanding at 1.1.2019	Granted during the period	Exercised during the period	Forfeited during the period	Outstanding at 30.6.2019
Scheme 2012 – batch 1									
Directors	Tranche 1	9.12.2015	1.4.2017 to 8.12.2025	40.34	230,750	–	(250)	–	230,500
	Tranche 2	9.12.2015	1.4.2018 to 8.12.2025	40.34	538,750	–	(65,250)	(22,625)	450,875
	Tranche 3	9.12.2015	1.4.2019 to 8.12.2025	40.34	538,750	–	–	–	538,750
	Tranche 4	9.12.2015	1.4.2020 to 8.12.2025	40.34	538,750	–	–	–	538,750
Employees	Tranche 1	9.12.2015	1.4.2017 to 8.12.2025	40.34	406,900	–	(3,250)	–	403,650
	Tranche 2	9.12.2015	1.4.2018 to 8.12.2025	40.34	1,030,850	–	(124,350)	(125,302)	781,198
	Tranche 3	9.12.2015	1.4.2019 to 8.12.2025	40.34	1,727,750	–	(111,000)	(487,938)	1,128,812
	Tranche 4	9.12.2015	1.4.2020 to 8.12.2025	40.34	1,727,750	–	–	(175,250)	1,552,500
Subtotal					6,740,250	–	(304,100)	(811,115)	5,625,035
Exercisable at the end of the period									3,533,785
Weighted average exercise price									HK$40.34
Scheme 2012 – batch 2									
Directors	Tranche 1	28.3.2019	1.4.2020-27.3.2029	76.36	–	105,000	–	–	105,000
	Tranche 2	28.3.2019	1.4.2021-27.3.2029	76.36	–	791,600	–	–	791,600
	Tranche 3	28.3.2019	1.4.2022-27.3.2029	76.36	–	791,700	–	–	791,700
	Tranche 4	28.3.2019	1.4.2023-27.3.2029	76.36	–	791,700	–	–	791,700
Employees	Tranche 1	28.3.2019	1.4.2020-27.3.2029	76.36	–	1,061,300	–	–	1,061,300
	Tranche 2	28.3.2019	1.4.2021-27.3.2029	76.36	–	2,606,500	–	–	2,606,500
	Tranche 3	28.3.2019	1.4.2022-27.3.2029	76.36	–	2,608,100	–	–	2,608,100
	Tranche 4	28.3.2019	1.4.2023-27.3.2029	76.36	–	2,608,100	–	–	2,608,100
Business Consultants	Tranche 1	28.3.2019	1.4.2020-27.3.2029	76.36	–	241,000	–	–	241,000
	Tranche 2	28.3.2019	1.4.2021-27.3.2029	76.36	–	241,000	–	–	241,000
	Tranche 3	28.3.2019	1.4.2022-27.3.2029	76.36	–	241,000	–	–	241,000
	Tranche 4	28.3.2019	1.4.2023-27.3.2029	76.36	–	241,000	–	–	241,000
Subtotal					–	12,328,000	–	–	12,328,000
Exercisable at the end of the period									–
Weighted average exercise price									HK$76.36
Total					6,740,250	12,328,000	(304,100)	(811,115)	17,953,035

23. Share Based Payments Transactions *(continued)*

b. Scheme 2012 *(continued)*

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

		Date of grant	Exercise period	Exercise price (HK$)	Outstanding at 1.1.2018	Number of options Exercised during the period	Reclassified during the period	Forfeited during the period	Outstanding at 30.6.2018
Scheme 2012 – batch 1									
Directors	Tranche 1	9.12.2015	1.4.2017 to 8.12.2025	40.34	230,750	–	–	–	230,750
	Tranche 2	9.12.2015	1.4.2018 to 8.12.2025	40.34	538,750	–	–	–	538,750
	Tranche 3	9.12.2015	1.4.2019 to 8.12.2025	40.34	538,750	–	–	–	538,750
	Tranche 4	9.12.2015	1.4.2020 to 8.12.2025	40.34	538,750	–	–	–	538,750
Employees	Tranche 1	9.12.2015	1.4.2017 to 8.12.2025	40.34	980,500	(416,950)	–	(62,500)	501,050
	Tranche 2	9.12.2015	1.4.2018 to 8.12.2025	40.34	2,020,000	(308,050)	–	(474,750)	1,237,200
	Tranche 3	9.12.2015	1.4.2019 to 8.12.2025	40.34	2,020,000	–	–	(292,250)	1,727,750
	Tranche 4	9.12.2015	1.4.2020 to 8.12.2025	40.34	2,020,000	–	–	(292,250)	1,727,750
					8,887,500	(725,000)	–	(1,121,750)	7,040,750
Exercisable at the end of the period									2,507,750
Weighted average exercise price									HK$40.34

Exercise price of the share options granted on 9 December 2015 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.

Exercise price of the share options granted on 28 March 2019 is HK$76.36 per share, which represents the highest of (i) the closing price of HK$74.10 per share as stated in the daily quotations sheet of the Stock Exchange on 28 March 2019, being the date of grant; (ii) the average closing price of HK$76.36 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 28 March 2019 calculated by using the binomial model was HK$336 million.

During the current period, 12,328,000 (six months ended 30 June 2018: nil) share option were granted, 304,100 (six months ended 30 June 2018: 725,000) share options were exercised and 811,115 (six months ended 30 June 2018: 1,121,750) share options were forfeited. As at 30 June 2019, the number of outstanding share options is 17,953,035 (31 December 2018: 6,740,250). During the current period, the Group recognised share-based payment expenses of RMB26 million (six months ended 30 June 2018: RMB9 million).

23. Share Based Payments Transactions *(continued)*

c. Scheme 2002

On 14 June 2010, the Company granted share options to the Directors and certain employees (the "2010 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 Scheme 2002, subject to acceptance by the 2010 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 2019, the number of outstanding share option granted to certain employees of the Group is 200,000 (31 December 2018: 200,000).

During the six months ended 30 June 2019 and 2018, the Group recognised no share-based payment expenses as all the share options have been fully vested.

24. Acquisition of Businesses

On 12 February 2019, the Group acquired 80% of the registered capital of 福建省閩昇燃氣有限公司 ("Minsheng") at a consideration of RMB40 million. Minsheng is engaged in retail gas sales business.

On 18 March 2019, the Group acquired 65% of the registered capital of 滄州市南大港管理區盛德燃氣有公司 ("Nandagang") by contributing capital to Nandagang, which was contingent on the net profit of Nandagang for the next three years and estimated to be approximately RMB38 million. Nandagang is engaged in retail gas sales business.

On 29 March 2019, the Group acquired 100% of the registered capital of 萊蕪金鴻管道天然氣有限公司, 寧陽金鴻天然氣有限公司, 壽光樂義華鑒天然氣利用有限公司 and 綏化市中油金鴻燃氣供應管理有限公司 (collectively referred to as "Jinhong") at a consideration of RMB258 million. Jinhong is engaged in retail gas sales business.

On 2 April 2019, the Group acquired 65% of the registered capital of 孟村回族自治縣盛德燃氣有限公司 ("Mengcun") by contributing capital to Mengcun, which was contingent on the net profit of Mengcun for the next three years and estimated to be approximately RMB71 million. Mengcun is engaged in retail gas sales business.

On 18 April 2019, the Group acquired 70% of the registered capital of 臨沂華油眾德燃氣有限公司 ("Linyi") at a consideration of RMB66 million. Linyi is engaged in retail gas sales business.

On 8 May 2019, the Group acquired further 55% of the registered capital of 龍游中機新奧智慧能源有限公司 ("Longyou") at a consideration of RMB31 million which then became a wholly-owned subsidiary of the Group from a joint venture. Longyou is engaged in sales of integrated energy and services.

On 1 January 2019, a joint venture of the Group, 合肥新奧中汽能源發展有限公司 ("Heifeizhongqi") amended its articles of association, which then became a subsidiary of the Group from a joint venture with no consideration.

Minsheng, Nandagang, Mengcun, Linyi, Longyou, Heifeizhongqi and Jinhong were acquired with the objective of expansion in market coverage of the Group's business.

24. Acquisition of Businesses *(continued)*

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

	Jinhong RMB million	Mengcun & Nandagang RMB million	Others RMB million	Total RMB million
Non-current assets				
Property, plant and equipment	313	56	137	506
Intangible assets – right of operation	58	80	161	299
Right-of-use assets	18	7	24	49
Trade and other receivables	–	–	1	1
Current assets				
Inventories	2	5	4	11
Trade and other receivables	236	29	46	311
Cash and cash equivalents	50	2	13	65
Current liabilities				
Trade and other payables	(372)	(99)	(67)	(538)
Bank and other loans – due within one year	(17)	(2)	(60)	(79)
Non-current liabilities				
Deferred tax liabilities	(15)	(20)	(41)	(76)
Net assets acquired	273	58	218	549
Capital injection by the Group (provisional value)	–	109	–	109
Net assets acquired including capital injection by the Group (provisional value)	273	167	218	658
(Bargain purchase gain) goodwill arising on acquisition (determined on a provisional basis)				
Total consideration	258	109	137	504
Add: Non-controlling interests	–	58	58	116
Add: Fair value of previously held interest	–	–	45	45
Less: Fair value of identified net assets acquired including capital injection by the Group	(273)	(167)	(218)	(658)
(Bargain purchase gain) goodwill arising on acquisition	(15)	–	22	7

24. Acquisition of Businesses *(continued)*

	Jinhong RMB million	Mengcun & Nandagang RMB million	Others RMB million	Total RMB million
Gain on remeasurement of interests in joint ventures previously held by the Group				
Fair value of previously held interest	–	–	45	45
Less: Carrying amount of the equity interest	–	–	(34)	(34)
	–	–	11	11
Total consideration satisfied by:				
Cash	258	–	112	370
Consideration payables	–	–	25	25
Capital injection by the Group (provisional value)	–	109	–	109
	258	109	137	504
Net cash (outflow) inflow arising on acquisition:				
Cash consideration paid	(258)	–	(112)	(370)
Less: Deposit paid in the prior year	133	–	–	133
Less: Cash and cash equivalents acquired	50	2	13	65
	(75)	2	(99)	(172)

Impact of acquisition on the results of the Group

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

Included in the profit for the six months ended 30 June 2019 is RMB28 million of profit attributable to the additional businesses generated by Minsheng, Nandagang, Mengcun, Linyi, Longyou, Heifeizhongqi and Jinhong. Revenue for the six months ended 30 June 2019 includes RMB220 million generated from Minsheng, Nandagang, Mengcun, Linyi, Longyou, Heifeizhongqi and Jinhong.

Had the acquisitions of Minsheng, Nandagang, Mengcun, Linyi, Longyou, Heifeizhongqi and Jinhong been effected on 1 January 2019, the revenue of the Group for the six months ended 30 June 2019 would have been approximately RMB35,478 million, and the profit for the period would have been approximately RMB3,932 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2019, nor is intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group, had Minsheng, Nandagang, Mengcun, Linyi, Longyou, Heifeizhongqi and Jinhong been acquired on 1 January 2019, the Directors have calculated the depreciation and amortisation of property, plant and equipment and intangible assets acquired on the basis of the fair values rather than the carrying amounts recognised in the pre-acquisition financial statements.

25. Acquisition of Assets Through Acquisition of Subsidiaries

To facilitate the Group's overall business, the Group will from time to time liaise with the local PRC governments and potential vendors to acquire the local rights of operation, gas assets and integrated energy related assets through acquisition of subsidiaries. During the six months ended 30 June 2019, the Group has acquired assets through the acquisitions of the following subsidiaries:

On 2 January 2019, the Group acquired 90% of the equity interest of 安徽池州瑞恩能源有限公司 at a consideration of RMB43 million.

On 8 January 2019, the Group acquired 100% of the equity interest of 南豐縣中氣天然氣有限公司 at a consideration of RMB10 million.

On 10 January 2019, the Group acquired 100% of the equity interest of 日照中能燃氣有限公司 at a consideration of RMB26 million.

On 18 January 2019, the Group acquired 100% of the equity interest of 壽寧縣中氣新能源有限公司 at a consideration of RMB5 million.

On 22 January 2019, the Group acquired 100% of the equity interest of 霞浦縣中氣新能源有限公司 and 古田縣中氣新能源有限公司 at a consideration of RMB25 million.

On 15 April 2019, the Group acquired further 18.15% of the equity interest of 大慶高新博源熱電有限公司 at a consideration of RMB22 million, which then became a 51% owned subsidiary of the Group from an associate.

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

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

	RMB million
Non-current assets	
Property, plant and equipment	189
Intangible assets – right of operation	52
Right-of-use assets	43
Current assets	
Trade and other receivables	21
Cash and cash equivalents	32
Current liabilities	
Trade and other payables	(16)
Bank and other loans – due within one year	(84)
Net assets acquired	237
Less: Non-controlling interests	(54)
Less: Fair value of previously held interest	(52)
Total consideration	131
Total consideration satisfied by:	
Cash	68
Consideration payables	63
	131
Net cash inflow arising on acquisition:	
Cash consideration paid	(68)
Less: Deposit paid in the prior year	37
Less: Cash and cash equivalents acquired	32
	1

26. Fair Value Measurement of Financial Instruments

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

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

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

	Fair value as at			
	30 June 2019 RMB million	31 December 2018 RMB million	**Fair value hierarchy**	**Valuation technique and key input**
Financial assets				
Derivative financial instruments	**544**	231	Level 2	Discounted cash flow for swap Future cash flows are estimated based on forward commodity price and forward exchange rates at settlement date, contracted strike rate, cap rate and premium payment, discounted at the swap curves expected by various counterparties Black-Scholes Model for option Fair value estimated based on strike price, commodity price, time to expiration, volatility and risk-free interest rate
Listed equity securities, equity interest in Shanghai Utilities	**333**	310	Level 1	Fair values are derived from quoted bid prices in an active market
Unlisted wealth management products	**–**	49	Level 3	Discounted cash flow Future cash flows are estimated based on the recoverable amount expected, discounted at a rate that reflects the credit risk of the counterparty
1.13% equity interest in Sinopec Marketing	**4,136**	4,177	Level 3	Estimated based on the P/B ratio of comparable listed companies and a liquidity discount rate

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

	Fair value as at 30 June 2019 RMB million	31 December 2018 RMB million	Fair value hierarchy	Valuation technique and key input
Financial assets *(continued)*				
Other unlisted equity securities – FVTPL	**372**	350	Level 3	Fair value is derived from price multiples of similar assets that have been traded in the market
Unlisted equity securities – FVTOCI	**119**	112	Level 3	Fair value is derived from the fair values of the underlying assets and liabilities held by the investee
Total return swap	**–**	463	Level 2	Fair value is with reference to the similar assets' quoted price in an active market
Financial liabilities				
Derivative financial instruments	**699**	1,143	Level 2	Discounted cash flow for swap Future cash flows are estimated based on forward commodity price and forward exchange rates at settlement date, contracted strike rate, cap rate and premium payment, discounted at the swap curves expected by various counterparties Black-Scholes Model for option Fair value estimated based on strike price, commodity price, time to expiration, volatility and risk-free interest rate

The Group's 1.13% equity interest in Sinopec Marketing which is classified as financial assets at FVTPL under Level 3 hierarchy amounted to RMB4,136 million as at 30 June 2019 under HKFRS 9. The significant unobservable input is the liquidity discount rate. The higher liquidity discount rate, the lower fair value of the financial assets at FVTPL will be. A 5% increase/decrease in the liquidity discount rate, holding all other variables constant, the fair value of the investment would decrease/increase by RMB20 million as at 30 June 2019.

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

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

	At 30 June 2019		At 31 December 2018	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
Financial liabilities:				
Fixed-rate bank and other loans	**5,173**	**5,053**	6,775	6,599
Senior notes	**2,499**	**2,653**	2,491	2,622
Unsecured bonds	**4,551**	**4,597**	4,539	4,456
Corporate bonds	**3,993**	**4,005**	2,497	2,500

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

27. Commitments

	At 30 June 2019 RMB million	At 31 December 2018 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**1,066**	1,113
Capital commitments in respect of		
– investments in joint ventures	**230**	212
– investments in associates	**321**	219
– other equity investments	**20**	92

28. Related Party Transactions

Apart from the related party balances as stated in Notes 16, 17 and 18, the Group had the following transactions with certain related parties:

	Six months ended 30 June	
	2019	2018
	RMB million	RMB million
Nature of transaction		
Associates		
– Sales of gas to	**226**	261
– Sales of materials to	**123**	47
– Purchase of gas from	**179**	139
– Purchase of equipment from	**1**	–
– Loan interest received from	**15**	4
– Deposit interest paid to	**1**	1
– Loan interest paid to	**–**	1
– Provision of gas transportation services to	**–**	1
– Provision of gas transportation services by	**23**	4
– Provision for construction and installation services to	**3**	–
Joint ventures		
– Sales of gas to	**788**	734
– Sales of materials to	**120**	74
– Purchase of gas from	**2,085**	1,518
– Provision of gas transportation services to	**211**	206
– Loan interest received from	**30**	28
– Loan interest paid to	**3**	3
– Provision of supporting services to	**1**	9
– Provision of proprietary services to	**–**	20
– Provision of construction services by	**11**	16
– Provision for construction and installation services to	**–**	17
– Deposit interest paid to	**12**	5
– Provision of gas transportation services by	**–**	3
– Purchase of equipment from	**–**	4
– Lease of vehicles to	**1**	1
– Provision of supporting services by	**2**	–

28. Related Party Transactions *(continued)*

	Six months ended 30 June 2019 RMB million	2018 RMB million
Nature of transaction		
Companies controlled by Mr. Wang		
Transactions exempt from shareholders' approval under Chapter 14A of the Listing Rules:		
– Provision of construction services by	**557**	575
– Provision of energy efficiency technology services by	**–**	185
– Purchase of equipment from	**29**	53
– Provision of information technology services by	**56**	79
– Purchase of LNG from	**596**	–
– Purchase of equity interests from (note)	**100**	–
Transactions fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules:		
– Sales of gas, gasoline and diesel to	**5**	5
– Provision of construction and installation services to	**2**	7
– Provision for property management services by	**8**	8
– Provision of outsourcing services by	**16**	22
– Lease of premises from	**1**	2
– Lease of premises to	**2**	2
– Sales of materials to	**33**	28
– Provision of supporting services by	**16**	19
– Provision of supporting services to	**19**	3
– Provision of technology services to	**27**	20
– Provision of electronic business services by	**2**	2
– Provision of research and development services to	**4**	–

Note: During the current period, the Group completed the acquisition of the additional 4.5% equity interest in ENN Finance from a related company controlled by Mr. Wang. The consideration for the acquisition amounted to approximately RMB100 million.

The Company issued senior notes on 13 May 2011 and unsecured bonds on 23 October 2014 and 24 July 2017 and entered into a club loan agreement with various banks on 23 November 2018. The terms and conditions of these debts require Mr. Wang to retain certain percentage of shareholding over the Company, failing which the Company would be required to repay or repurchase all outstanding debts at predetermined prices.

28. Related Party Transactions *(continued)*

Financial guarantee contracts

As at 30 June 2019, the Group had issued guarantees to bank to secure loan facilities granted to associates and joint ventures to the extent of approximately RMB447 million (31 December 2018: RMB203 million). The loan facilities have been utilised at the end of the reporting period.

As at 31 December 2018, Mr. Wang and Ms. Zhao Baoju, spouse of Mr Wang have provided personal guarantees to the Group to the extent of RMB620 million.

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Short-term employee benefits	**6,702**	6,048
Post-employment benefits	**176**	128
Share-based payments	**4,596**	1,449
	11,474	7,625

29. Long-Term LNG Purchase Arrangements

Since the year ended 31 December 2016, the Group has commitments to acquire LNG from certain suppliers. The delivery of LNG under such arrangements commenced in 2018 and last for 5 to 10 years. The Group is obliged to make "take-or-pay" payment to suppliers for the quantity contracted but not delivered.

In the opinion of the Directors, such LNG purchase arrangements are entered into and continued to be held for the purpose of the receipt of a non-financial item in accordance with the Group's expected purchase, sale and usage.

In order to manage and mitigate the commodity price risk, the Group entered into various commodity derivative contracts (the "Commodity Derivatives") against the underlying LNG contracts with certain financial institutions in order to stabilise its future LNG purchase costs. The Commodity Derivatives are not designated as hedging instruments. Accordingly, they are classified and accounted for as financial instruments at FVTPL.

The fair value gain and realised gain of approximately RMB647 million (six months ended 30 June 2018: RMB62 million) and approximately RMB139 million (six months ended 30 June 2018: realised loss RMB2 million) on the Commodity Derivatives were recognised during the six months ended 30 June 2019.

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