ENN 新奧

ENN Energy Holdings Limited
新奧能源控股有限公司*

（Stock code 股份代號: 2688）

interim report 2010
二零一零年中期業績報告

* 僅供識別 for identification only

ENN Energy Holdings Limited

interim report 2010

Financial and Operational Highlights

Dear Shareholders,

The Board of Directors (the "Directors") of ENN Energy Holdings Limited (formerly known as "Xinao Gas Holdings Limited") (the "Company", and together with its subsidiaries, the "Group") is pleased to announce that the unaudited profit attributable to owners of the Company for the six months ended 30 June 2010 (the "Period") was RMB533,323,000, representing an increase of RMB159,099,000 or 42.5% as compared to RMB374,224,000 for the corresponding period last year.

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		
	2010 (Unaudited)	2009 (Unaudited)	Increase/ (Decrease)
Revenue (RMB)	**5,043,719,000**	4,016,415,000	25.6%
Gross profit (RMB)	**1,420,690,000**	1,224,515,000	16.0%
Profit attributable to owners of the Company (RMB)	**533,323,000**	374,224,000	42.5%
Earnings per share – Basic (RMB)	**50.79 cents**	36.87 cents	37.8%
Connectable urban population	**45,663,000**	41,874,000	9.0%
Connectable residential households	**15,221,000**	13,958,000	9.0%
New natural gas connections made during the Period:			
– residential households	**426,245**	356,675	19.5%
– commercial/industrial ("C/I") customers (sites)	**1,821**	1,196	625
– installed designed daily capacity for C/I customers (m^3)	**2,376,246**	1,394,926	70.3%
Accumulated number of connected natural gas customers:			
– residential households	**4,965,321**[(1)]	4,045,135[(2)]	22.7%
– C/I customers (sites)	**15,405**[(1)]	12,064[(2)]	3,341
– installed designed daily capacity for C/I customers (m^3)	**15,380,603**[(1)]	10,457,977[(2)]	47.1%
Accumulated number of connected piped gas (including natural gas) customers:			
– residential households	**5,165,474**	4,210,159	22.7%
– C/I customers (sites)	**16,059**	12,495	3,564
– installed designed daily capacity for C/I customers (m^3)	**15,914,980**	10,919,138	45.8%
Natural gas penetration rate	**32.6%**	29.0%	3.6%
Piped gas (including natural gas) penetration rate	**33.9%**	30.2%	3.7%
Unit of piped gas sold to residential households (m^3)	**346,813,000**	263,636,000	31.5%
Unit of piped gas sold to C/I customers (m^3)	**1,390,526,000**	887,087,000	56.8%
Unit of gas sold to vehicles (m^3)	**250,231,000**	187,522,000	33.4%
Unit of bottled liquefied petroleum gas ("LPG") sold (ton)	**29,384**	248,052	(88.2%)
Unit of steam sold (ton)	**42,521**	–	100%
Number of vehicle refuelling stations	**176**	141	35
Number of natural gas processing stations	**95**	91	4
Total length of existing intermediate and main pipelines (km)	**15,537**	13,222	17.5%

Notes:

1. Including a total of 1,003,319 natural gas residential customers and 2,072 natural gas C/I customers (with a total designed daily capacity of 1,067,232m^3) from acquisition/conversion.

2. Including a total of 1,000,984 natural gas residential customers and 2,071 natural gas C/I customers (with a total designed daily capacity of 1,067,016m^3) from acquisition/conversion.

Management Discussion and Analysis

BUSINESS REVIEW

Pipeline Construction

During the Period, gas connection fee revenue reached RMB1,272,621,000, representing an increase of 7.6% over the corresponding period last year and accounting for 25.2% of the total revenue. However, as the connection fee income from certain projects was recognised by amortisation since 2009, the actual growth rate of connection fee income would reach 11.6% if the amount being amortised was included in connection fee income. The average connection fees for residential households and C/I customers were RMB2,610 and RMB150 (per m3) respectively. As compared to the figures in 2009, the average connection fees for residential households during the Period remained at a similar level, which reveals that China maintains a stable policy over the charge of connection fees. On the other hand, the Group constantly provides C/I customers with promotions on connection fee in order to boost the gas sales.

Taking advantage of its industry experience and good management, the Group achieved sustained growth in the number of new connections. The new piped natural gas connections made to residential households and the designed daily capacity for C/I customers newly installed during the Period increased by 19.5% and 70.3% respectively as compared to the corresponding period last year. The robust growth in C/I customers not only evidenced the Group's excellent execution ability but also showed the competitive advantages of natural gas over other kinds of energy. Currently, the potential for making new gas connections for both residential households and C/I customers in the areas already covered by the Group is still enormous.

The liquefied natural gas ("LNG") terminal in Fujian Province had commenced operation in 2009, which helped the Group achieving good gas sales scale in that region during the Period. As a result, gas supply for the Group's seven projects in the Fujian province, including the one in Quanzhou city, an important industrial centre in South-East China, has been further secured. In addition, the completion of the western section of the West-East Pipeline II and the Sichuan-East Pipeline will facilitate more connections to both residential households and C/I customers because of the sufficient gas supply and so strengthen the Group with more stable and long-term revenue.

Gas Sales

During the Period, piped gas sales revenue reached RMB3,040,885,000, representing an increase of 69.7% over the corresponding period last year and accounting for 60.3% of the total revenue.

Sales of piped gas and vehicle gas continue to accelerate, contributing to 71.3% of the total revenue in aggregate. As compared with the percentage of 54.5% during the corresponding period last year, the gas sales revenue has achieved an obvious increase and become the major source of revenue of the Group. This shows that the Group has a more stable and long-term revenue base. The further decrease in reliance on one-off connection fee leads to a more enhanced revenue structure. On the other hand, the number of vehicle gas refuelling stations ("refuelling stations") has further increased from 141 to 176 compared with the same period last year, whilst the number of refuelling stations that are under construction or have already been built and will come into operation was 30. As a result, the gas sales to vehicles increased by 39.2% as compared to the corresponding period last year. Thanks to its contribution to environmental protection, the great reduction in fuel cost for vehicle users and the rapid increase in the number of vehicles in China, natural gas refuelling station business which provides clean energy as a substitute for gasoline for vehicle use is expected to experience rapid growth continuously. The Group can thus further optimise its current advantage on gas sources and increase the economies of scale for the gas projects on hand. It is expected that the refuelling station business will become one of the major catalysts for the increase in the Group's gas sales revenue in the long run.

During the Period, sales revenue from bottled LPG reached RMB146,515,000, representing a decrease of 75.5% as compared to the corresponding period last year, leading to a shrink in its share over the total revenue from 14.9% in the corresponding period last year to 2.9%. Given the drop in the sales of bottled LPG, the Group allocated more resources to gas connections and sales of natural gas which can both generate higher margins.

Management Discussion and Analysis

Gross and Net Profit Margins

During the Period, the overall gross profit margin and net profit margin (before minority interests) of the Group were 28.2% and 13.8% respectively, representing a decrease of 2.3% and an increase of 1.5% respectively as compared to the corresponding period last year.

The decrease in gross profit margin was mainly resulted from the continuous improvement in the Group's revenue structure. In total revenue, the share of one-off connection fee that has higher gross profit margin was dropping consistently, while that of gas sales which is on a long-term and continuous basis has achieved substantial increase. Another reason that leads to the decrease in gross profit margin was because more connection fee income was recognised by amortisation during the Period.

As for the increase in net profit margin, other than the effective cost control maintained by the Group, the substantial decrease in provision for bad debts, one-off loss and impairment of fixed assets have also played a significant role. Moreover, in light of the further growth in the business of the Group, the share of results of jointly controlled entities increased by 67.5% as compared to the corresponding period last year, which in turn provides a good foundation for the Group's profits and cash flows. On the other hand, the sound financial management performed by the Group was another factor for the increase in net profit margin. The Group has raised US$150 million syndicated loan at the end of 2009 which was mainly used for repaying the short-term loans in China. Such syndicated loan bears interests at a rate much lower than the lending rate in China. During the Period, the finance costs of the Group decreased by 13.6% as compared to the corresponding period last year.

New Projects

During the Period, the Group secured the following 10 new piped gas projects:

Country/Province	City	Connectable urban population
Vietnam	Hanoi, Ho Chi Minh, Da Nang	8,920,000
Guangdong, China	Huadu District, Guangzhou	444,000
Guangdong, China	Fengkai County	80,000
Guangdong, China	Luoding City	288,000
Guangdong, China	Huaiji County	124,000
Guangdong, China	Guangning County	80,000
Guangdong, China	Xinyi City	250,000
Guangdong, China	Lianzhou City	150,000
Hunan, China	Huaihua City	430,000
Yunnan, China	Wenshan County	252,000

The commercial and industrial development in these project cities in China are relatively robust, in particular, the gross domestic product per capita in the Guangzhou Huadu District in Guangdong Province reached RMB66,870 in 2008, significantly above the national average. The pillar industries in Huadu included automobile, port economy and jewelry. The other six projects in the Guangdong Province are also especially well-developed in both industrial and commercial sectors, with particularly robust industries including electronics, textile, chemical, mineral processing, paper-making and machining, and all these industries have played a significant role in boosting the gas sales of the Group; Following the acquisition of Changsha, Zhuzhou, and Xiangtan, Huaihua City is the fourth project obtained by the Group in the Hunan province. The economy of Huaihua City is comparatively well-developed with pillar industries including medical and pharmaceutical, chemical and food processing which have also helped stimulate the Group's gas sales; Being the first project in the Yunnan Province and with relatively well-developed industries such as medical and pharmaceutical, tobacco and agricultural product processing, the acquisition of the Wenshan County will be favourable to the further expansion of the Group's business in that province. With the above nine projects included, as of 30 June 2010, the number of piped gas projects operated by the Group in China amounted to 88, while the total connectable urban population further increased to 45,663,000. If the connectable urban population of 8,920,000 for the Vietnam project is also included, the total connectable urban population of the Group would reach 54,583,000. Meanwhile, in the first half of the year, the Group has formally established business cooperation with The Vietnam Oil and Gas Group (PetroVietnam) to develop piped gas and vehicle gas refuelling businesses in the near future. The Group's joint venture in Vietnam has obtained rights to operate piped natural gas projects in every city in Vietnam, among which the Group will first begin operation in the most economically developed cities, including Hanoi, Ho Chi Minh and Da Nang. Being an emerging market, Vietnam demonstrates huge development potential and considerable growth rate, and such cooperation represented the prelude to breaking into the international market by the Group. Moreover, during the Period, the number of vehicle gas refuelling stations completed and started operation was 14, adding to a total of 176 vehicle gas refuelling stations located in 46 cities of the state, among which 12 were not piped gas project cities of the Group. In future, we will continue to expand the vehicle gas refuelling business and cover more cities.

Given the Group's strategy of acquiring projects with low gas penetration rates, as of 30 June 2010, the overall gas penetration rate of the Group's China projects is 33.9% only. From the Group's past experience, the gas penetration rates can reach as high as 80% to 90%. In view of the huge number of connectable but not yet connected population under the coverage of the Group's projects which have obtained exclusive operational rights, the low gas penetration rate not only shows that the Group is still at the rapid development stage but also ensures good revenue in the future.

Human Resources

As at 30 June 2010, the total number of staff employed by the Group was 18,141, of which 11 were based in Hong Kong. The number of staff was increased to cope with the needs arising from new projects and business development of the Group. The staff was remunerated at the market level with benefits such as bonus, retirement benefit and share option scheme.

FINANCIAL RESOURCES REVIEW

Liquidity and Financial Resources

As at 30 June 2010, the Group's cash on hand (including fixed bank deposits) was equivalent to RMB2,491,037,000 (31 December 2009: RMB2,712,661,000), and its total debts amounted equivalent to RMB6,332,207,000 (31 December 2009: RMB5,884,509,000). Its net gearing ratio, i.e. the ratio of net debt to equity (including minority interests), was 55.6% (31 December 2009: 49.0%).

Seven-year 7.375% Fixed Rate Bonds

On 5 August 2005, the Company issued 7-year bonds in the aggregate principal amount of US$200,000,000 (equivalent to RMB1,614,040,000) with issue price and redemption price of 100%, which are unconditionally and irrevocably guaranteed by the guarantor subsidiaries. The guarantor subsidiaries are wholly-owned subsidiaries of the Company and are primarily holding companies that operate through their subsidiaries. The coupon of the bonds is 7.375%, and interests are paid semi-annually.

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

Management Discussion and Analysis

Borrowings Structure

As at 30 June 2010, the Group's total debts amounted equivalent to RMB6,332,207,000 (31 December 2009: RMB5,884,509,000), including loans and bonds of US$375,000,000 (equivalent to RMB2,534,998,000) and mortgage loans of HK$14,517,000 (equivalent to RMB12,664,000). Apart from the US$200,000,000 bonds which are fixed coupons, other US dollar loans and HK dollar mortgage loans bear interest at floating rates, and the remaining bank and other borrowings are denominated in Renminbi and bear interests at rates announced by the People's Bank of China. The project companies used the Renminbi loans as their working capital and operational expenditure. Except for the loan amount equivalent to RMB1,364,520,000 that are secured by assets with the carrying amount equivalent to RMB63,409,000, all of the other loans are unsecured. Short-term loans were equivalent to RMB2,120,014,000 while the remaining were long-term loans falling due after one year or above.

As all the operations of the Group are in the China, revenues and expenses were mainly denominated in Renminbi. Hence, there were no significant foreign exchange exposures or risks. The Group will monitor the market trends of interest rates closely and adopt appropriate measures when necessary.

Financial Guarantee Liability

As at 30 June 2010, the Group had issued guarantees to banks to secure loan facilities granted to associates and jointly controlled entities to the extent of RMB87,000,000 (31 December 2009: RMB87,000,000) and RMB142,000,000 (31 December 2009: RMB92,000,000) respectively. The amounts have been utilised at the balance sheet date.

Capital Commitment

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	**30,338**	22,851
Capital commitment in respect of investment in joint ventures	**121,721**	145,721

PROSPECTS

The Group reached the critical mass in terms of the number of gas projects and the connectable population in China, and this enables the Group to selectively acquire high-quality new piped gas projects in recent years, boost the gas penetration rates of our existing gas projects, develop the business of compressed natural gas (as a substitute for gasoline) refuelling stations that can increase long-term natural gas sales, as well as develop the energy distribution channels in peripheral towns and cities of our gas projects, so as to achieve sustainable business expansion. During the Period, the Group has expanded into the international market through obtaining its first overseas downstream project of piped natural gas–Vietnam. That means the Group's business internationalisation programme has already kicked off. Having Vietnam as a pilot project, we can determine a set of standards and foundation for acquiring and operating international projects, and after more and more experience in managing international projects is gained, the feasibility of developing other international markets will be further studied. As such, the Group's limitation on acquiring new projects in China can be broken, bringing in more diversified business growth to the Group in the future, and thus delivering enhanced gains and returns for the shareholders.

With the continuous growth in the Group's gas sales volume, secured gas supply is of utmost importance. Besides the LNG import terminal in Putian, Fujian Province which provided secured gas supply for the Group's seven projects in the Fujian Province, the construction of the western section of the West-East Pipeline II and Sichuan-East Pipeline, which connect China from east to west and north to south, were also completed. On the other hand, the eastern section of the West-East Pipeline II will be completed phase by phase within next two years, and after that, the West-East Pipeline II will be extended to cover the Guangxi Autonomous Region. Consequently, these new gas sources fundamentally secure the gas supply for the Group's piped natural gas projects in Guangdong Province, Guangxi Autonomous Region, Fujian Province and Zhejiang Province. In addition to these large-scale natural gas infrastructure projects by the State, the Group also develops its own upstream projects which have annual LNG production capacity of over 300million m3 and can benefit more downstream projects of the Group. On the other hand, through importing natural gas from Qatar via the LNG terminal of CNOOC in Guangdong Province, the Group was able to offer stronger protection and greater flexibility to the gas supply for its projects in the Guangdong Province during the Period.

To further narrow down the difference between gas tariff in the PRC and the international market, the National Development and Reform Commission ("NDRC") has announced the content of the natural gas price reform. Whereby, it has decided to raise the onshore benchmark wellhead price of natural gas by RMB 230 per thousand cubic meter since 1 June 2010. Up to August 2010, among the Group's 88 project cities in the PRC, 26 projects have increased their upstream tariff and the price increase per cubic meter is RMB0.29, of which 15 projects have also increased their downstream tariff, with a tariff increase of RMB0.40 per cubic meter. Both the progress on implementing the price adjustment and the amounts of the tariff adjustments have been satisfactory. On 22 July 2010, the NDRC has promulgated the Notice on Accelerating the Finalisation of Proposal on Natural Gas Price Adjustment, whereby the NDRC procures local governments to finalise the natural gas price adjustment as soon as possible. This is not only favourable to the progress on price adjustment but also beneficial to the development of the whole industry. It is expected that tariff adjustment can be successfully implemented to all projects finally.

The sustained growth in the Chinese economy has exerted great pressure on its energy resources and environment. The high energy consumption along with economic development and the excessive emission of pollutants and greenhouse gas have also imposed a serious threat to the continuous development of the economy and society. Thanks to the increase in energy consumption efficiency and decrease in cost resulted from the improvement of technology, and enhancement in the public awareness of environmental protection, efficient use of clean energy has now gained wider recognition in the society. After years of excellent operation, the Group has built a strong brand identity and extensive customer resources. It has also taken a proactive stance to formulate new business model. On the other hand, primarily through the provision of comprehensive regional clean energy solutions, the Group has formulated various energy distribution systems and established supply models for multi-energy products including gas, photoelectricity and calorific capacity. By applying its extensive experience and utilising its advantage on advanced information systems, the Group has exercised effective management on the energy business and provided energy management services to its customers. Currently, the Group has certain energy management projects in implementation, such as the polygeneration project for the Changsha Huanghua Airport and the cascading use of energy for the Liuyang Biomedical Park in Changsha. All these projects greatly enhance the utilisation efficiency of energy resources and lower the energy consumption costs for customers through the transformation, recycle use, cascading use, in-depth processing and diversified supply of energy resources. As a result, emission reduction can be achieved while the revenue and earnings level for the Company can also be further enhanced in the future.

Management Discussion and Analysis

Currently, as compared to most countries and regions in other parts of the world, China still maintains healthy and stable growth in respect of its economic development. The boost in new gas connections and sales volume to C/I customers shows that there is still a good momentum for growth in China. Also, contributed by the stability feature of the public utilities sector, the Group has delivered impressive performance during the Period with a growth rate exceeding the original target set at the beginning of the year.

As for the macro environment, the Chinese government has devoted a great deal of effort in promoting the development of clean energy, new energy and renewable energy. Various laws and plans in relation to energy development have also been introduced by the Chinese government to support the promotion of energy. One of the examples of the supporting actions taken by the government is the development of energy infrastructure projects which includes construction of long distance natural gas pipelines and LNG terminal. With such strong support from the government, and complemented by the energy services business vigorously promoted by the Group, sound management as well as the effective use of resources, the Group believes that, besides making contribution to environmental protection, the benefits of all shareholders and employees and the utilisation of social resources have been maximised at the same time.

Report on Review of Interim Financial Information

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF ENN ENERGY HOLDINGS LIMITED
(Formerly Xinao Gas Holdings Limited)
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 10 to 45, which comprise the condensed consolidated statement of financial position of ENN Energy Holdings Limited as of 30 June 2010 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 interim financial information consists of making enquiries, 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26 August 2010

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	NOTES	Six months ended 30 June **2010** **(unaudited)** **RMB'000**	 2009 (unaudited) RMB'000
Revenue	3	**5,043,719**	4,016,415
Cost of sales		**(3,623,029)**	(2,791,900)
Gross profit		**1,420,690**	1,224,515
Other income	4	**61,020**	38,516
Selling expenses		**(90,677)**	(67,550)
Administrative expenses		**(482,214)**	(378,025)
Other gains and losses	5	**(5,222)**	(92,790)
Share of results of associates		**6,713**	10,853
Share of results of jointly controlled entities		**138,720**	82,828
Finance costs	6	**(150,627)**	(174,428)
Profit before taxation	7	**898,403**	643,919
Taxation	8	**(203,744)**	(148,748)
Profit and total comprehensive income for the period		**694,659**	495,171
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**533,323**	374,224
Non-controlling interests		**161,336**	120,947
		694,659	495,171
Earnings per share	10		
Basic		**50.79 cents**	36.87 cents
Diluted		**50.78 cents**	36.57 cents

Condensed Consolidated Statement of Financial Position

At 30 June 2010

	NOTES	At 30 June 2010 (unaudited) RMB'000	At 31 December 2009 (audited) RMB'000
Non-current assets			
Property, plant and equipment	11	**9,745,263**	9,092,059
Prepaid lease payments	11	**667,130**	528,909
Investment properties	11	**72,625**	72,625
Goodwill		**191,841**	171,862
Intangible assets	12	**717,072**	449,773
Interests in associates	13	**331,084**	323,880
Interests in jointly controlled entities	13	**1,111,406**	1,015,641
Available-for-sale investments		**14,056**	14,056
Loan receivable		**6,000**	9,000
Other receivable	17	**30,288**	30,581
Amounts due from associates	14	**71,743**	71,795
Amounts due from jointly controlled entities	15	**24,847**	26,644
Amounts due from related companies		**22,252**	34,582
Deferred tax assets	8	**103,146**	33,678
Deposits paid for investments	16	**143,075**	62,200
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights		**6,182**	10,010
Restricted bank deposits	18	**13,471**	2,200
		13,271,481	11,949,495
Current assets			
Inventories		**277,896**	286,046
Trade and other receivables	17	**1,509,127**	1,208,275
Prepaid lease payments	11	**12,274**	11,105
Amounts due from customers for contract work		**304,198**	241,415
Amounts due from associates	14	**12,215**	4,301
Amounts due from jointly controlled entities	15	**265,640**	155,041
Amounts due from related companies		**3,125**	16,684
Restricted bank deposits	18	**68,010**	118,270
Fixed bank deposits		**40,000**	–
Cash and cash equivalents		**2,451,037**	2,712,661
		4,943,522	4,753,798

Condensed Consolidated Statement of Financial Position

At 30 June 2010

	NOTES	At 30 June 2010 (unaudited) RMB'000	At 31 December 2009 (audited) RMB'000
Current liabilities			
Trade and other payables	19	**2,866,519**	2,771,574
Amounts due to customers for contract work		**622,859**	564,898
Amounts due to associates	14	**75,016**	76,405
Amounts due to jointly controlled entities	15	**364,462**	327,826
Amounts due to related companies		**21,476**	21,261
Taxation payable		**158,058**	97,906
Dividend payable	9	**200,158**	–
Bank and other loans – due within one year	20	**1,298,818**	675,796
Short-term debentures	21	**821,196**	808,699
Financial guarantee liability		**2,932**	3,383
Deferred income – current portion	22	**22,788**	16,290
		6,454,282	5,364,038
Net current liabilities		**(1,510,760)**	(610,240)
Total assets less current liabilities		**11,760,721**	11,339,255
Capital and reserves			
Share capital		**109,879**	109,879
Reserves		**5,395,478**	5,051,946
Equity attributable to owners of the Company		**5,505,357**	5,161,825
Non-controlling interests		**1,399,961**	1,316,432
Total equity		**6,905,318**	6,478,257
Non-current liabilities			
Bank and other loans – due after one year	20	**2,865,603**	3,048,805
Guaranteed notes		**1,346,590**	1,351,209
Deferred taxation	8	**249,828**	180,859
Deferred income – non-current portion	22	**393,382**	280,125
		4,855,403	4,860,998
		11,760,721	11,339,255

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

Six months ended 30 June 2010

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (note c)	Share option reserve RMB'000	Statutory surplus reserve fund RMB'000 (note a)	Property revaluation reserve RMB'000	Designated safety fund reserve RMB'000 (note b)	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010 (audited)	109,879	2,184,461	(18,374)	–	307,440	55,302	14,176	2,508,941	5,161,825	1,316,432	6,478,257
Profit for the period and total comprehensive income for the period	–	–	–	–	–	–	–	533,323	533,323	161,336	694,659
Recognition of equity settled share-based payment	–	–	–	8,282	–	–	–	–	8,282	–	8,282
Acquisition of additional interests in subsidiaries	–	–	2,085	–	–	–	–	–	2,085	(6,701)	(4,616)
Acquisition of subsidiaries (note 25 & 26)	–	–	–	–	–	–	–	–	–	27,359	27,359
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	2,955	2,955
Dividend recognised as distribution (Note 9)	–	–	–	–	–	–	–	(200,158)	(200,158)	–	(200,158)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(101,420)	(101,420)
Transfer to statutory surplus reserve fund	–	–	–	–	28,176	–	–	(28,176)	–	–	–
Transfer to designated safety fund reserve	–	–	–	–	–	–	3,479	(3,479)	–	–	–
At 30 June 2010 (unaudited)	109,879	2,184,461	(16,289)	8,282	335,616	55,302	17,655	2,810,451	5,505,357	1,399,961	6,905,318

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

Six months ended 30 June 2009

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (note c)	Share option reserve RMB'000	Statutory surplus reserve fund RMB'000 (note a)	Property revaluation reserve RMB'000	Designated safety fund reserve RMB'000 (note b)	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009 (audited)	106,318	1,893,039	(18,374)	58,208	226,688	28,813	–	1,960,879	4,255,571	1,185,869	5,441,440
Profit for the period and total comprehensive income for the period	–	–	–	–	–	–	–	374,224	374,224	120,947	495,171
Issue of shares on exercise of share options	3,561	291,422	–	(58,208)	–	–	–	–	236,775	–	236,775
Disposal of a subsidiary (Note 27)	–	–	–	–	–	–	–	–	–	(1,581)	(1,581)
Dividend recognised as distribution	–	–	–	–	–	–	–	(157,644)	(157,644)	–	(157,644)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(70,351)	(70,351)
Transfer to statutory surplus reserve fund	–	–	–	–	8,788	–	–	(8,788)	–	–	–
Transfer to designated safely fund reserve	–	–	–	–	–	–	10,944	(10,944)	–	–	–
At 30 June 2009 (unaudited)	109,879	2,184,461	(18,374)	–	235,476	28,813	10,944	2,157,727	4,708,926	1,234,884	5,943,810

Notes:

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

b. Pursuant to relevant PRC regulation, the Group is required to transfer 1.5% on revenue generated from transportation of gas or other dangerous chemical into a designated fund. The fund will be used for installation and repair and maintenance of safety facilities.

c. The amount as at 1 January 2010 represented the difference between the paid-up capital of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition amounting to RMB1,167,000 during the group restructuring carried out for the purpose of initial public offering of the Company's shares in 2001 and the difference between the fair values and the carrying values of the underlying assets and liabilities attributable to the additional interests in a subsidiary amounting to RMB19,541,000 in 2007.

   During the six months ended 30 June 2010, the Group acquired additional interests in subsidiaries from non-controlling shareholders, the difference between the consideration paid and the carrying amount of non-controlling interests in the respect of those additional interests of subsidiaries of RMB2,085,000 is dealt with reserve.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	NOTES	Six months ended 30 June 2010 (unaudited) RMB'000	 2009 (unaudited) RMB'000
Net cash from operating activities		**979,980**	694,588
Investing activities			
Purchase of property, plant and equipment		**(804,306)**	(514,308)
Repayment of deposits for investments		**(113,075)**	(2,000)
Return of deposits for investments		**3,200**	9,020
Net cash outflow on acquisition of subsidiaries	25 & 26	**(239,527)**	(69,200)
Increase in bank deposits with maturities more than three months		**(40,000)**	(230,000)
Advance to trust fund		**(300,000)**	–
Return of loan receivable		**3,000**	3,000
Other investing activities		**(39,683)**	(5,407)
Net cash used in investing activities		**(1,530,391)**	(808,895)
Financing activities			
Repayment of short-term debenture		**–**	(600,000)
Dividends paid to non-controlling shareholders		**(101,420)**	(70,351)
Dividends paid to owners of the Group		**–**	(157,644)
New bank loans raised		**1,470,896**	1,984,404
Repayment of bank loans		**(1,041,076)**	(1,033,215)
Proceeds from shares issued		**–**	236,775
Advances from jointly controlled entities		**26,917**	79,000
Other financing activities		**(66,530)**	(61,559)
Net cash from financing activities		**288,787**	377,410
(Decrease) increase in cash and cash equivalents		**(261,624)**	263,103
Cash and cash equivalents at the beginning of the period		**2,712,661**	1,725,358
Cash and cash equivalents at the end of the period, represented by bank balances and cash		**2,451,037**	1,988,461

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

1. Basis of Preparation

The change of English name of the Company from "XinAo Gas Holdings Limited" to "ENN Energy Holdings Limited" has become effective on 13 August 2010.

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

In preparing the Interim Financial Statements, the directors of the Company (the "Directors") have given careful consideration of the Company and its subsidiaries (collectively the "Group") in light of its net current liabilities of RMB1,510,760,000 as at 30 June 2010. On the basis that the Group has secured credit facilities of approximately RMB2,545,000,000 which remains unutilised at the date of approval of the Interim Financial Statements and issued debenture of RMB800,000,000 subsequent to the end of the reporting period as set out on note 29(b). The Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the Interim Financial Statements have been prepared on a going concern basis.

2. Principal Accounting Policies

The Interim Financial Statements have been prepared on the historical cost basis except for certain properties, which are measured at revaluation amounts or fair values, as appropriate.

The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2009. The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2010.

HKFRS 3 (Revised 2008) Business Combinations

During the six months ended 30 June 2010, the Group applied HKFRS 3 (Revised) "Business Combination" to the acquisition of 廣州富都管道燃氣有限公司 and 盤錦遼濱盛泰燃氣有限公司 in the current period.

HKFRS 3 (Revised) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as "minority" interests). In the current period, the Group has elected to measure non-controlling interests at the proportionate share of the acquirees' net identified assets at the respective acquisition date as set out in Note 25.

The Group has not had contingent consideration in each acquisition of business. The transaction costs on acquisition of business were insignificant for the businesses acquired in prior years and current period and have been charged to profit or loss. Accordingly, the changes in the accounting policy on business combination do not have material impact for the business acquisitions during the six months ended 30 June 2010 in this respect.

2. Principal Accounting Policies *(continued)*

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The application of HKAS 27 (Revised) "Consolidated and Separate Financial Statements" has resulted in changes in the Group's accounting policies regarding increases or decreases in ownership interests in subsidiaries that did not involve loss of control of the Group after 1 January 2010. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under HKAS 27 (Revised), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

During the six months ended 30 June 2010, the Group has acquired additional interest in subsidiaries and recognised the difference between the consideration and the carrying amount of non-controlling interests amounting to RMB2,085,000 in special reserves.

HKAS 27 (Revised) also required when control of a subsidiary is lost as a result of a transaction, event or other circumstances, any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments. The Group has applied these requirements of HKAS 27 (Revised) to a subsidiary becoming the Group's jointly controlled entity during the six months ended 30 June 2010 and recognised a gain of RMB9,633,000 in profit or loss. Details of this transaction are set out in Note 27.

The adoption of changes in the accounting policies on retained interests when loss of control has resulted that the profit of the Group for six months ended 30 June 2010 increase by RMB7,053,000 and the basic earnings per share increase by RMB0.67 cents.

Amendment to HKFRS 17 Lease

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17 Lease, the Group reassessed the classification of land elements of unexpired leases at 1 January 2010 based on information which existed at the inception of these leases and there is no impact to the Group upon adoption of this amendment.

Other Amendments

The adoption of other new and revised HKFRSs has had no material impact on the reported results and financial position of the Group for prior accounting periods. Accordingly, no prior period adjustment has been recognised and changes in policies have no material impact for current period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

2. Principal Accounting Policies *(continued)*

Other Amendments *(continued)*

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in May 2010[1]
HKAS 24 (Revised)	Related Parties Disclosures[2]
HKAS 32 (Amendment)	Classification of Right Issues[3]
HKFRS 1 (Amendment)	Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adoptors[3]
IFRS 9	Financial Instruments[4]
HK (IFRIC)–Int 14 (Amendment)	Prepayments of a Minimum Funding Requirements[2]
HK (IFRIC)–Int 19	Extinguishing Financial Liabilities with Equity Intruments[4]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

[2] Effective for annual periods beginning on or after 1 January 2011

[3] Effective for annual periods beginning on or after 1 February 2010

[4] Effective for annual periods beginning on or after 1 January 2013

[5] Effective for annual periods beginning on or after 1 July 2010

3. Segment Information

Operating segments are identified on the basis of internal reports about components of the Group and regularly reviewed by the chief operating decision maker, the Company's Chief Executive Officer (the "CEO"), in order to allocate resources to the segment and to assess its performance.

Information reported to the Company's CEO for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services.

3. Segment Information *(continued)*

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

Six months ended 30 June 2010

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	Consolidation RMB'000
Revenue from external customers	1,272,621	3,040,885	146,515	28,231	555,467	5,043,719
Segment profit before depreciation and amortisation	712,900	729,500	7,221	13,544	121,203	1,584,368
Depreciation and amortisation	(24,846)	(125,862)	(2,075)	(902)	(9,993)	(163,678)
Segment profit	688,054	603,638	5,146	12,642	111,210	1,420,690
Other income						61,020
Selling expenses						(90,677)
Administrative expenses						(482,214)
Other gains and losses						(5,222)
Share of results of associates						6,713
Share of results of jointly controlled entities						138,720
Finance costs						(150,627)
Profit before taxation						898,403
Taxation						(203,744)
Profit for the period						694,659

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

3. Segment Information *(continued)*

Six months ended 30 June 2009

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	Consolidation RMB'000
Revenue from external customers	1,182,883	1,792,007	597,768	44,645	399,112	4,016,415
Segment profit before depreciation and amortisation	726,319	501,319	9,441	14,610	106,786	1,358,475
Depreciation and amortisation	(24,099)	(100,244)	(2,417)	(1,042)	(6,158)	(133,960)
Segment profit	702,220	401,075	7,024	13,568	100,628	1,224,515
Other income						38,516
Selling expenses						(67,550)
Administrative expenses						(378,025)
Other gains and losses						(92,790)
Share of results of associates						10,853
Share of results of jointly controlled entities						82,828
Finance costs						(174,428)
Profit before taxation						643,919
Taxation						(148,748)
Profit for the period						495,171

Segment profit represents the gross profit earned by each segment without allocation of selling expenses, administration expenses, other income, other gains and losses, share of results of associates and jointly controlled entities and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

4. Other Income

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Other income includes:		
Interest income from:		
– bank deposits	**13,017**	7,894
– loans to jointly controlled entities	**420**	2,580
– loans to non-controlling shareholders of subsidiaries	**–**	550
Total interest income	**13,437**	11,024
Incentive subsidies (Note)	**19,774**	15,035
Rental income from investment properties, net of outgoings	**1,762**	1,176
Repairs and maintenance income	**1,927**	3,634

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

5. Other Gains and Losses

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Gain (loss) on disposal of		
– Prepaid lease payments	**3,658**	–
– Property, plant and equipment	**(14,660)**	(4,783)
– A subsidiary	**–**	(1,571)
– An associate	**–**	5,023
Gain of derecognition of a subsidiary to jointly controlled entity (Note 27)	**9,633**	–
Impairment loss on:		
– Property, plant and equipment (note (a))	**–**	(12,536)
– Trade receivables	**(15,905)**	(18,556)
– Other receivables (note (b))	**(1,009)**	(59,681)
Exchange gain (loss), net	**13,061**	(686)
	(5,222)	(92,790)

Notes:

(a) In 2008, the Group had replaced the pipelines for delivery of coal gas into pipelines for delivery of natural gas in Shijiazhuang, Hebei Province, the PRC. During the six months end 30 June 2009, the Director considered that the resalable value of such coal gas pipelines is immaterial and the cost for reuse outweighs the carrying values, therefore, impairment loss of RMB12,536,000 was recognised in profit or loss during the six months ended 30 June 2009.

(b) Included in other receivables as at 30 June 2009 were amounts of RMB214,240,000, of which RMB43,000,000 was due from Shantou Longpeng Energy Investment Co., Ltd. ("Shantou Longpeng Investment") and RMB171,240,000 was due from a subsidiary of Shantou Longpeng Investment. In August 2009, the Group had assigned the whole amount without recourse to an independent third party, 渤海國際信托有限公司("Bohai Xintuo"), at a cash consideration of RMB140,000,000. Having taken into settlement received from this debtor amounting to RMB20,000,000 in September 2009 and proceeds from disposal of the receivables, the Group had provided impairment of RMB54,240,000 during the six months ended 30 June 2009.

6. Finance Costs

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Interest on:		
Bank and other loans wholly repayable within five years	**72,162**	86,172
Bank loans not wholly repayable within five years	**37,267**	40,635
Guaranteed notes	**49,886**	52,519
Short-term debentures	**12,496**	5,657
Discounted bills	**–**	390
	171,811	185,373
Less: Amount capitalised under construction in progress	**(21,184)**	(10,945)
	150,627	174,428

7. Profit Before Taxation

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:		
Depreciation and amortisation:		
– property, plant and equipment	**206,974**	168,244
– intangible assets	**15,162**	11,364
Total depreciation and amortisation (note)	**222,136**	179,608
Release of prepaid lease payments	**7,249**	5,368
Research and development expenses	**1,294**	1,020
Share-based payment expenses (included in administrative expenses)	**8,282**	–

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Depreciation and amortisation included in:		
Cost of sales	**163,678**	133,960
Administrative expenses	**58,458**	45,648
	222,136	179,608

8. Taxation

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
PRC Enterprise Income Tax	**264,119**	139,353
Deferred taxation	**(60,375)**	9,395
	203,744	148,748

PRC Enterprise Income Tax of the Group mainly comprises income tax of the Company and its subsidiaries which are recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 25% for the six months ended 30 June 2010 (six months ended 30 June 2009: 25%).

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

The deferred taxation balances are as follows:

	At 30 June 2010	At 31 December 2009
	RMB'000	RMB'000
Deferred tax assets	**103,146**	33,678
Deferred tax liabilities	**(249,828)**	(180,859)
	(146,682)	(147,181)

8. Taxation *(continued)*

The movements of deferred taxation for the period are as follows:

	Attributable to						
	Valuation of properties RMB'000	Intangible assets RMB'000	Capitalisation of interest in property, plant and equipment RMB'000	Undistributed retained profit of PRC entities from 1 January 2008 RMB'000 (note)	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2010	**21,612**	**87,124**	**36,174**	**39,371**	**(35,521)**	**(1,579)**	**147,181**
Acquisition of businesses	–	**59,876**	–	–	–	–	**59,876**
(Credit) charge to profit or loss	–	**(2,317)**	**4,057**	**5,510**	**(67,625)**	–	**(60,375)**
At 30 June 2010	**21,612**	**144,683**	**40,231**	**44,881**	**(103,146)**	**(1,579)**	**146,682**

Note: The amount represents deferred taxation in respect of the temporary differences attributable to the undistributed retained profits earned after 1 January 2008 by the group entities registered in the PRC. The amount has been provided based on the temporary differences that the Director considers to be probably reversed in the foreseeable future upon distribution of profit by the respective group entities located in the PRC to non-PRC shareholders.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

9. Dividend

The final dividend in respect of fiscal year 2009 of HKD21.65 cents (equivalent to approximately RMB19.06 cents) per share (2009: final dividend in respect of 2008 of HKD17.71 cents (equivalent to approximately RMB15.62 cents) per share) amounting to approximately RMB200,158,000 (2009: RMB157,644,000) were declared on 31 March 2010 and were paid on 13 July 2010.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: 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	
	2010	2009
	RMB'000	RMB'000
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share (profit for the period attributable to owners of the Company)	**533,323**	374,224

	Six months ended 30 June	
	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,050,149,397**	1,014,891,828
Effect of dilutive potential ordinary shares arising from share options	99,022	8,371,705
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,050,248,419	1,023,263,533

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

During the six months ended 30 June 2010, the Group acquired property, plant and equipment and land use rights amounting to approximately RMB804,306,000 and RMB32,383,000 (six months ended 30 June 2009: RMB536,188,000 and RMB18,809,000) respectively.

In addition, through acquisition of subsidiaries, the Group's property, plant and equipment and land use rights increased by approximately RMB99,643,000 and RMB119,271,000 respectively (six months ended 30 June 2009: nil) during the period.

No revaluation on leasehold land and buildings and investment properties was carried out during the period. The valuation at 31 December 2009 was carried out by Knight Frank Petty Limited ("Knight Frank Petty"), an independent firm of qualified professional valuer not connected with the Group, on an open market value basis. The directors of the Company consider that the carrying amounts of the leasehold land and buildings and investment properties at 30 June 2010 were not significantly different from their fair values on 31 December 2009.

12. Intangible Assets

During the six months ended 30 June 2010, through acquisition of subsidiaries, the Group acquired rights of operation of RMB256,696,000 and customer base of RMB3,533,000 (Note 25 & 26).

In addition, the Group purchased gas station operation rights from an independent third party at a cash consideration of RMB22,233,000 (six months ended 30 June 2009: nil) during the period.

13. Interests in Associates and Jointly Controlled Entities

During the six months ended 30 June 2010, the Group made additional capital contribution to an existing associate amounting to RMB15,000,000, and made capital contribution to two newly set up jointly controlled entities amounting to RMB25,000,000 and acquired a jointly controlled entity at a consideration of RMB8,000,000 respectively.

As set out in Note 27(a), during the six months ended 30 June 2010, the Group derecognised its interests in assets and liabilities of 鄒平新奧燃氣有限公司 ("Zouping XinAo"), due to the injection of additional capital by 山東實華天然氣有限公司 ("New Equity Holder"). According to the memorandum of association of Zouping XinAo, all the financial and operating decision must be approved by more than two-third of the directors. The Group holds control of 60% of voting power in board of directors, therefore, Zouping Xinao is reclassified as a jointly controlled entity. The fair value of the Group's residual interest of 60% in Zouping XinAo amounting to RMB30,102,000 was recognised as the Group's interests in Zouping XinAo as a jointly controlled entity.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

14. Amount Due from/to Associates

Included in the amount due from/to associate are trade receivables amounting to RMB9,323,000 (At 31 December 2009: RMB12,057,000) and trade payables amounting to RMB668,000 (At 31 December 2009: RMB2,628,000) and the aged analysis is as follow:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade receivables due from associates:		
0-3 months	**2,593**	6,474
4-6 months	**1,356**	1,920
7-9 months	**3,316**	237
10-12 months	**1,981**	1,625
More than 1 year	**77**	1,801
	9,323	12,057

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade payables due to associates:		
0-3 months	**359**	2,270
4-6 months	**126**	69
7-9 months	**183**	289
	668	2,628

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

15. Amounts Due from/to Jointly Controlled Entities

As at 30 June 2010, included in the amount due from/to jointly controlled entities are trade receivables amounting to RMB93,471,000 (At 31 December 2009: RMB95,834,000) and trade payables amounting to RMB100,721,000 (At 31 December 2009: RMB131,702,000) and the aged analysis is as follow:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade receivables due from jointly controlled entities:		
0-3 months	**31,310**	33,331
4-6 months	**7,339**	36,871
7-9 months	**38,657**	9,305
10-12 months	**4,709**	3,612
More than 1 year	**11,456**	12,715
	93,471	95,834
Trade payables due to jointly controlled entities:		
0-3 months	**17,803**	30,642
4-6 months	**15,771**	32,237
7-9 months	**11,780**	15,963
10-12 months	**11,182**	13,788
More than 1 year	**44,185**	39,072
	100,721	131,702

Owing the strategic relationship with the jointly controlled entities, there is no formal credit policy applied to above balances by the Group and in the opinion of the directors of the Company, the above balances are not overdue.

16. Deposit Paid for Investments

During the six months ended 30 June 2010,

(a) The Group made capital contribution of RMB54,000,000 to 河源管道燃氣發展有限公司 and in order to acquire 48.87% interest, which engages in gas pipeline infrastructure and sales of piped gas in Heyuan municipal, Guangdong Province, the PRC.

(b) The Group also made contribution of RMB14,700,000 in order to establish a gas station in Zhaoqing, Guangdong Province, the PRC in accordance with the cooperation agreement with 中石油昆侖天然氣有限公司.

(c) The Group also paid USD6,527,000 (approximately RMB44,375,000) in order to acquire 23.38% interest from the vendors and increase 20.51% interest in Petrol Vietnam Gas City Investment and Development Joint Stock Company for gas connection and provision business in Vietnam.

As at 30 June 2010, the capital certifications have not yet been accomplished in above transactions.

17. Trade and Other Receivables

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade receivables aged:		
0-3 months	**308,667**	352,018
4-6 months	**50,754**	56,237
7-9 months	**11,630**	32,825
10-12 months	**26,894**	23,411
More than 1 year	**2,814**	28,651
Total trade receivables	**400,759**	493,142
Other receivables (Note (b))	**507,731**	192,467
Notes receivable	**40,065**	37,538
Advance to suppliers, deposits and prepayments	**590,860**	515,709
	1,539,415	1,238,856

17. Trade and Other Receivables *(continued)*

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Analysed for reporting purpose as:		
Current assets	**1,509,127**	1,208,275
Non-current assets (Note (a))	**30,288**	30,581
	1,539,415	1,238,856

Notes:

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

(b) Included in other recoverables, an advances of RMB300,000,000 to Bohai Xintuo for a trust arrangement. The Group is allowed to withdraw the amount at any time.

Movements in impairment on trade and other receivables are as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Balance at beginning of the period/year	**125,093**	78,463
Impairment losses recognised	**37,391**	70,015
Amounts recovered	**(20,477)**	(12,909)
Amounts written off as uncollectible	**(1,610)**	(10,476)
Balance at end of the period/year	**140,397**	125,093

18. Restricted Bank Deposits

Restricted bank deposits classified as current assets represent the bank deposits pledged to banks to secure certain bills facilities granted to the Group by certain banks and purchase contracts with suppliers within one year.

Restricted bank deposits classified as non-current assets represent the bank deposits pledged to secure the rights of operation to local government and secure bills facilities for commitments of purchase contracts over one year.

The restricted bank deposits carry fixed interest rate range from 0.36% to 1.98% per annum. The restricted bank deposits will be released upon the settlement of relevant bill facilities and the expiry of purchase contracts or operation rights.

19. Trade and Other Payables

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade payables aged:		
0-3 months	**450,152**	631,472
4-6 months	**121,342**	144,349
7-9 months	**128,685**	133,426
10-12 months	**75,940**	59,929
More than 1 year	**185,729**	155,451
Total trade payables	**961,848**	1,124,627
Advances received from customers	**1,286,201**	1,158,315
Accrued charges and other payables	**618,470**	488,632
	2,866,519	2,771,574

20. Bank and Other Loans

During the period, the Group obtained new bank and other loans in the amount of RMB1,470,896,000 (six months ended 30 June 2009 RMB1,984,404,000) and made repayments in the amount of RMB1,041,076,000 (six months ended 30 June 2009: RMB1,033,215,000). The loans bear interest at the range from 2.83% to 5.85% per annum (At 31 December 2009: 2.90% to 6.28% per annum). In addition, through acquisition of business, the Group increase RMB10,000,000 bank loan which is secured by property and land use right. These proceeds were used to finance the capital expenditure and general working capital of the Group.

At 30 June 2010, certain assets of the Group with aggregate carrying value of RMB63,409,000 (At 31 December 2009: RMB70,378,000) were pledged as security for loan and bills facilities granted by the banks.

21. Short-Term Debentures

The balance at 30 June 2010 represents the short-term debenture issued to third party with face value of RMB800,000,000 and the accrued interests of RMB21,196,000. The amount was unsecured carries interests at 3.15% per annum is repayable on 31 August 2010 (Note29 (b)).

22. Deferred Income

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Balance at beginning of the period/year	**296,415**	20,770
Upfront fee received during the period/year	**130,865**	286,749
Release during the period/year	**(11,110)**	(11,104)
Balance at end of the period/year	**416,170**	296,415
Analysed for the reporting purpose as:		
Current portion	**22,788**	16,290
Non-current portion	**393,382**	280,125
Total	**416,170**	296,415

23. Share Options

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

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

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

					Number of options		
	Date of grant	Vesting period	Exercisable period	Exercise price	Outstanding at 1 January 2010	Grant share options during the period	Outstanding at 30 June 2010
Tranche 1	14.06.2010	14.06.2010 to 13.12.2010	14.12.2010 to 13.06.2020	HK$16.26	–	16,745,000	16,745,000
Tranche 2	14.06.2010	14.06.2010 to 13.06.2012	14.06.2012 to 13.06.2020	HK$16.26	–	16,745,000	16,745,000
					–	33,490,000	33,490,000

23. Share Options *(continued)*

The closing price of the Group's shares immediately before 14 June 2010, the date of grant, was HK$16.22 per share.

Exercise price of the share options granted is HK$16.26 per share, which represents the highest of (i) the closing price of HK$16.26 per share as stated in the daily quotations sheet of the Stock Exchange on 14 June 2010, being the date of grant; (ii) the average closing price of HK$15.04 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 Group recognised share-based expenses of RMB8,282,000 in the profit or loss for the six months ended 30 June 2010. The total fair value of the options calculated by using the binomial model was HK$193,297,000.

The following assumptions were used to calculation the fair value of share options:

Spot Price	HK$16.26
Exercise Price	HK$16.26
Risk Free Rate	2.421%
Expected Volatility	49.23%
Expected Dividend Yield	1.37%
Early Exercise Behaviour	150% of the Exercise Price

The the Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At the end of each reporting date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to the share option reserve.

24. Commitments

(a) Capital commitments

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	**30,338**	22,851
Capital commitment in respect of investments in joint ventures	**121,721**	145,271

(b) Other commitments

As at 30 June 2010, the Group has commitment amounting to RMB12,033,000 (At 31 December 2009: RMB10,788,000) in respect of acquisition of land use rights in the PRC.

25. Acquisitions of Businesses

On 11 February 2010, the Group acquired 100% of the registered capital of 廣州富都管道燃氣有限公司 ("Guangzhou Fudu") at a total cash consideration of RMB268,000,000. Guangzhou Fudu is a group of companies engaging in the sales of piped gas in Huadu municipal, Guangdong and is acquired with the objective of significantly improving marketing coverage in Guangdong and obtaining contribution arising from gas supply to industrial centre.

On 25 March 2010, the Group acquired 80% of the registered capital of 盤錦遼濱盛泰燃氣有限公司 ("Panjin Shengtai") at a cash consideration of approximately RMB12,600,000. Panjin Shengtai is a group of companies engaging in the sales of piped gas.

Above acquisition is object to significantly improving marketing coverage in Guangdong and Liaoning respectively, and obtaining contribution resulted from gas supply to industrial centre.

Consideration transferred

	Guangzhou Fudu RMB'000	Panjin Shengtai RMB'000
Cash consideration paid	227,800	10,080
Amount not yet paid and included in other payable	40,200	2,520
	268,000	12,600

Acquisition-related costs amounting to RMB73,000 have been excluded from the cost of acquisition and have been recognised as administrative expenses in condensed consolidated statement of comprehensive income in the current period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

25. Acquisitions of Businesses *(continued)*

The provisional fair value of assets and liabilities recognised at the date of acquisition

	Guangzhou Fudu RMB'000	Panjin Shengtai RMB'000
Current assets		
Cash and cash equivalents	24,887	1,649
Trade and other receivables	55,487	1,025
Inventories	4,665	312
Non-current assets		
Property, plant and equipment	46,788	5,042
Intangible assets-rights of operation	227,667	13,303
Intangible assets-customer base	3,533	–
Prepaid lease payments	1,726	–
Current liabilities		
Trade and other payables	(51,005)	(4,513)
Bank and other loan	(10,000)	–
Non-current liabilities		
Deferred tax liabilities	(56,550)	(3,326)
	247,198	13,492

The fair value of intangible assets is determined based on the draft valuation report issued by an independent professional valuer and the management reasonable estimation in investment evaluation due diligence. The fair value of trade and other receivables, intangible assets and goodwill are provisional and waiting for the finalisation of valuation report.

The trade and other receivables of RMB55,487,000 and RMB1,025,000 or RMB56,512,000 in aggregate acquired set out above included trade receivables, other receivables, deposits and prepayments. The fair value of the trade and other receivables amounted to RMB47,136,000 in aggregated which is estimated to be the same as the gross contractual amounts of these receivables. The Directors preliminarily considered that all acquired receivables will be recoverable.

Non-controlling interests

In the current period, the Group has elected to measure non-controlling interests at the proportionate share of the acquirees' net identified assets at the respective acquisition date.

The non-controlling interest (20%) in Panjin Shengtai recognised at the acquisition date was measured based on the proportionate share of the acquirees' net identified amounted to RMB892,000.

25. Acquisitions of Businesses *(continued)*

Goodwill arising on acquisition

	Guangzhou Fudu RMB'000	Panjin Shengtai RMB'000
Consideration transferred	268,000	12,600
Plus: non-controlling interests	–	892
Less: fair value of identified net assets acquired	(247,198)	(13,492)
Goodwill arising on acquisition	20,802	–

Goodwill arose on the acquisition of Guangzhou Fudu because the acquisition included the expected additional industrial customers resulting from the development of the Guangzhou Huadu Automobile Industry Zone within the area of operations of Guangzhou Fudu in the foreseeable future. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

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

Net cash outflow arising on acquisition

	Guangzhou Fudu RMB'000	Panjin Shengtai RMB'000
Consideration paid in cash	(227,800)	(10,080)
Less: cash and cash equivalent balances acquired	24,887	1,649
	(202,913)	(8,431)

Impact of acquisition on the results of the Group

Included in the profit for the interim period is RMB1,378,000 attributable to Guangzhou Fudu, and revenue for the period includes RMB70,948,000 in respect of Guangzhou Fudu. Included in the profit for the interim period is a loss of RMB526,000 attributable to Panjin Shengtai, and revenue for the period includes RMB162,000 in respect of Panjin Shengtai

Had the acquisition of Guangzhou Fudu and Panjin Shengtai been effected at 1 January 2010, the revenue of the Group for the six months ended 30 June 2010 would have been RMB5,059,018,000, and the profit for the period would have been RMB696,212,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2010, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Guangzhou Fudu and Panjin Shengtai been acquired at the beginning of the current reporting period, the directors have calculated depreciation and amortisation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

26. Acquisition of Assets Through Acquisitions of Subsidiaries

To facilitate with the Group's overall business strategy, the Group will from time to time liaise the local PRC government and potential vendor to acquire the existing gas connection and related assets. During the six months ended 30 June 2010, the Group has acquired assets through the acquisitions of the following subsidiaries.

(a) On 1 January 2010, the Group acquired 100% of the registered capital of 安徽施凱清潔能源有限公司 ("Anhui Shikai") at a cash consideration of approximately RMB3,300,000. The Group has already paid the consideration in previous years. Anhui Shikai was engaged in operations of vehicle gas refuelling station. After completion of acquisition, Anhui Shikai has been deregistered and all the assets and liabilities of Anhui Shikai were transferred to 六安新奧燃氣有限公司. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and fair the value of the assets and liabilities acquired are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	3,167
Trade and other receivables	140
Trade and other payables	(7)
Total consideration paid in previous years	3,300

(b) On 29 January 2010, the Group acquired 80% of the registered capital of 山東七星液化石油氣有限責任公司 ("Shandong Qixing") at a cash consideration of approximately RMB29,000,000, which was paid in previous year as deposit for investment. Shandong Qixing is engaged in sales of liquefied petroleum gas. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the fair value of the assets and liabilities acquired are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	9,302
Prepaid lease payments	19,950
Inventories	53
Trade and other receivables	461
Cash and cash equivalents	5,054
Trade and other payables	(2,693)
	32,127
Non-controlling interests	(3,127)
Total consideration satisfied by cash paid in previous years	29,000
Cash inflow arising on acquisition:	
Cash and cash equivalents acquired	5,054

26. Acquisition of Assets Through Acquisitions of Subsidiaries *(continued)*

(c) On 29 January 2010, the Group acquired 72.8% of the registered capital of 江蘇大通管輸天然氣有限公司 ("Jiangsu Datong") at a cash consideration of approximately USD9,362,400 (approximately RMB63,928,000). Jiangsu Datong is still in development stage and is established for the purpose of the construction of gas pipelines. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the fair value of the assets and liabilities acquired are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	16,516
Trade and other receivables	4,154
Cash and cash equivalents	62,418
Trade and other payables	(393)
	82,695
Non-controlling interests	(18,767)
Total consideration satisfied by cash	63,928
Net cash outflow arising on acquisition:	
Cash consideration paid	(63,928)
Cash and cash equivalents acquired	62,418
	(1,510)

(d) On 30 March 2010, the Group acquired 94% of the registered capital of 惠州新鑫新能源有限公司 ("Huizhou Xinxin") at a cash consideration of RMB95,880,000. Huizhou Xinxin has not yet commenced operations and it holds a land which can be used for construction of storage room for liquefied petroleum gas. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the fair value of the assets and liabilities acquired are as follows:

	RMB'000
Net assets acquired:	
Prepaid lease payments	97,595
Trade and other receivables	31
Cash and cash equivalents	3
	97,629
Non-controlling interests	(1,749)
Total consideration included in other payables of the Group on the condensed consolidated statement of financial position	95,880
Cash inflow arising on acquisition:	
Cash and cash equivalents acquired	3

26. Acquisition of Assets Through Acquisitions of Subsidiaries *(continued)*

(e) On 7 April 2010, the Group acquired 85% of the registered capital of 懷化新奧燃氣有限公司 ("Huaihua XinAo") at a cash consideration of approximately RMB31,730,000. Huaihua XinAo is engaged in gas pipeline infrastructure and sales of gas equipment and appliances. Huaihua XinAo has not yet commenced operation as at acquisition date. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the fair value of the assets and liabilities acquired are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	**18,828**
Intangible asset-rights of operation	**15,726**
	34,554
Non-controlling interests	**(2,824)**
Total consideration, satisfied by cash	**31,730**
Cash outflow arising on acquisition:	
Cash consideration paid	**(31,730)**

27. Derecognition/Disposal of Subsidiaries

(a) On 28 February 2010, a wholly owned subsidiary, Zouping XinAo (see Note 13), increased the register capital of USD800,000(approximately RMB5,464,000) at a total cash consideration of RMB17,946,000 by introduction of new joint venture partner 山東實華天然氣有限公司 ("New Equity Holder") of which RMB5,464,000 and RMB12,482,000 were recorded respectively, as increase in the registered capital and capital reserve of Zouping XinAo. The New Equity Holder engages in gas pipeline infrastructure and sales of gas of piled gas and is the supplier of Zouping XinAo.

According to the newly signed articles of association of Zouping XinAo, the Group and the New Equity Holder have joint control on the business of Zouping XinAo. In addition, the Group will own the entire undistributed profits of Zouping XinAo as at date of the establishment of joint control. Accordingly, the Group's interests in the assets and liabilities in Zouping XinAo were derecognised upon the joint control was established.

The net assets of Zouping XinAo derecognised at the date of establishment of joint control were as follows:

	RMB'000
Net assets derecognised:	
Property, plant and equipment	**38,742**
Interest in an associate	**7,882**
Prepaid lease payments	**1,642**
Inventories	**4,926**
Trade and other receivable	**1,273**
Cash and cash equivalents	**4,963**
Trade and other payable	**(35,487)**
Taxable payable	**(618)**
Non-controlling interests	**(2,854)**
Net amount derecognised attributable to the equity owners of the Group before capital injection	**20,469**
Capital injection by New Equity Holders	**17,946**
Net amount derecognised including capital injection by New Equity Holders	**38,415**

27. Derecognition/Disposal of Subsidiaries *(continued)*

(a) *(continued)*

The gain recognised in profit or loss on loss of control of Zouping XinAo is calculated as follows:

	RMB'000
Fair value of the residual interests in Zouping XinAo recognised as investment cost of jointly controlled entity	**30,102**
Capital injection by New Equity Holders	**17,946**
	48,048
Less: Net assets derecognised	**(38,415)**
Gain on derecognition of a subsidiary to jointly controlled entity	**9,633**
Cash outflow arising on derecognition:	
Cash and cash equivalents disposed of	**(4,963)**

The fair value of the residual interests of the Group in the Zouping XinAo was based on the Directors' valuation of the separate identifiable assets and liabilities and the Group's share in these assets after the dilution of interests resulting from the capital injection by the New Equity Holders.

The portion of that gain attributable to recognising the jointly controlled entity at fair value at the date when the control is lost is approximately RMB7,053,000.

27. Derecognition/Disposal of Subsidiaries *(continued)*

(b) On 21 March 2009, the Group disposed of its subsidiary, 南通新能氣體開發有限公司, to an independent third party to the Group at a consideration of RMB800,000. The net assets of the subsidiary disposed of at the date of disposal were as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	4,797
Inventories	70
Trade and other receivables	2,586
Cash and cash equivalents	25
Trade and other payables	(3,526)
	3,952
Non-controlling interests	(1,581)
Loss on disposal of a subsidiary	(1,571)
Total consideration satisfied by cash	800
Net cash inflow arising on disposal:	
Cash consideration	800
Cash and cash equivalents disposed of	(25)
	775

28. Related Party Transactions

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Associates		
– Sale of gas to	**351**	2,761
– Sale of materials to	**415**	2,012
– Provision of gas transportation services to	**4,135**	7,257
– Purchase of materials from	**1,928**	–
– Purchase of gas from	**19,246**	–
Jointly controlled entities		
– Sale of gas to	**132,735**	34,530
– Sale of materials to	**27,283**	32,290
– Purchase of gas from	**113,194**	81,287
– Provision of gas transportation services to	**90,234**	106,895
– Loan interest received from	**420**	2,580
– Payments made on behalf of the Group	**191**	2,780
– Provision of supporting services	**298**	–
– Provision of construction services	**14,445**	–
Companies controlled by Mr. Wang Yu Suo ("Mr. Wang") a controlling shareholder and director of the Company		
– Sales of gas to	**2,164**	1,590
– Purchase of materials used in production		
– Dimethyl Methyl Ether from	**10,355**	3,124
– Purchase of materials from	**2,084**	–
– Provision of gas connection service to	**–**	4,573
– Provision for property management services by	**1,722**	2,183
– Provision for property management services to	**218**	218
– Provision of maritime transportation services by	**4,304**	9,719
– Purchase of land use rights from	**37,000**	–
– Purchase of equipment and supporting service from	**14,956**	–
– Lease of premises to	**520**	520
– Lease of premises from	**1,298**	1,298
– Provision of supporting service by	**9,331**	9,950
– Donation to (note)	**–**	2,830
– Payment on behalf by	**351**	–

Note: Donation was made to a non-profit making organisation, 新奧慈善基金會, of which Mr. Wang was the legal representatives up to April 2009.

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For the six months ended 30 June 2010

28. Related Party Transactions *(continued)*

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Non-controlling shareholders of subsidiaries		
– Provision of construction service by	**587**	1,006
– Payment on behalf by	**236**	–
– Loan advance to	**1,979**	309
– Lease of premises from	**30**	744
– Lease of land from	**–**	1,026
– Provision of transportation services by	**425**	425
– Loan interest received from	**–**	550
– Purchase of gas from	**1,564**	–
– Sales of gas to	**405**	–

In addition, Mr. Wang and Ms. Zhao Baoju, spouse of Mr. Wang has provided personal guarantees to the extent of RMB720,000,000 (31 December 2009: RMB300,000,000) and a related company has provided corporate guarantee to the extent of RMBNil (31 December 2009: RMB100,000,000) to certain banks for banking facilities granted to the Group as at 30 June 2010.

A jointly controlled entity has pledged its rights to receive gas supply fee income in favour of a bank to secure banking facility amounted to RMB100,000,000 (At 31 December 2009: RMB100,000,000) granted to the Group and RMBNil (At 31 December 2009: RMB20,000,000) of which is utilised as at 30 June 2010.

The Group has provided guarantees to associates amounting to RMB87,000,000 (At 31 December 2009: RMB87,000,000) and to jointly controlled entities amounting to RMB142,000,000 (At 31 December 2009: RMB92,000,000).

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Short-term employee benefits	**3,560**	3,942
Post-employment benefits	**35**	63
Share-based payments	**3,662**	–
	7,257	4,005

29. Events After the End of the Interim Period

(a) On 26 July 2010, a non-wholly owned subsidiary, 湛江新奧燃氣有限公司 ("Zhanjiang XinAo"), signed the cooperation agreement with 湛江市金豪房地產開發有限公司 and 廊坊新奧房地產開發有限公司. Three parties agreed to set up a joint venture with registered capital of RMB50,000,000 and the joint venture will engage in the development and management of real estate (including construction of related infrastructure thereon) and the leasing of self-owned properties. Zhanjiang XinAo will entitle 27% interests in the registered capital of the joint venture. Zhanjiang XinAo will contribute its share of the registered capital by transferring its land use rights with carrying amount of RMB27,000,000, which have been valued an aggregate of approximately RMB106,000,000. Pursuant to the co-operation agreement, the difference of the fair value of transferred assets and capital contribution of RMB13,500,000 will be accounted for shareholder loan at a rate equivalent to the lending rate quoted by banks.

(b) Pursuant to the approval [2009] No. CP81 issued by National Association of Financial Market Institutional Investors ("NAFMII") dated 12 August 2009, NAFMII approved a wholly-owned subsidiary of the Company,新奧(中國)燃氣投資有限公司 ("XinAo (China)"), to issue short-term debenture with a maximum limit of RMB1,600,000,000 up to 12 August 2011. On 27 August 2009, XinAo (China) issued short-term debenture of RMB800,000,000 and the debenture will be repaid on 31 August 2010.

On 5 August 2010, XinAo (China) issued another short-tem debenture with face value of RMB800,000,000. The debenture is unsecured and bearing interests at 3.27% per annum and will be repayable on 4 August 2011.

(c) Subsequent to 30 June 2010, the Group has set up a jointly controlled entity, namely 肇慶市中石油昆侖新奧天然氣利用有限公司, which will engage in the gas station operations, and holds 49% of registered capital.

Other Information

Disclosure of Interests

Directors' Interests or Short Positions in Shares and in Share Options

As at 30 June 2010, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

Name of Director	Capacity	Interest in shares: Personal interests	Interest in shares: Corporate interests	Interest in shares: Family interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital as at 30 June 2010
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	596,000 (Note 2)	326,095,000 (Note 1)	–	326,691,000	1,000,000 (Note 3)	327,691,000	31.20%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of controlled corporation and interest of spouse	–	326,095,000 (Note 1)	596,000 (Note 2)	326,691,000	1,000,000 (Note 3)	327,691,000	31.20%
Mr. Cheung Yip Sang	Beneficial owner	–	–	–	–	3,900,000	3,900,000	0.37%
Mr. Zhao Jinfeng	Beneficial owner	–	–	–	–	2,360,000	2,360,000	0.22%
Mr. Yu Jianchao	Beneficial owner	–	–	–	–	3,600,000	3,600,000	0.34%
Mr. Cheng Chak Ngok	Beneficial owner	–	–	–	–	450,000	450,000	0.04%
Mr. Liang Zhiwei	Beneficial owner	–	–	–	–	1,250,000	1,250,000	0.12%
Ms. Zhai Xiaoqin	Beneficial owner	–	–	–	–	1,250,000	1,250,000	0.12%
Mr. Jin Yongsheng	Beneficial owner	–	–	–	–	400,000	400,000	0.04%
Mr. Wang Guangtian	Beneficial owner	–	–	–	–	200,000	200,000	0.02%
Ms. Yien Yu Yu, Catherine	Beneficial owner	–	–	–	–	200,000	200,000	0.02%
Mr. Kong Chung Kau	Beneficial owner	–	–	–	–	200,000	200,000	0.02%

Notes:

1. The two references to 326,095,000 shares relate to the same block of shares. Such shares are held by Xinao Group International Investment Limited ("XGII"), which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang.
3. On 14 June 2010, Mr. Wang and Ms. Zhao were granted 800,000 and 200,000 share options respectively by the Company. Mr. Wang, being the spouse of Ms. Zhao, will be deemed to be interested in the share options held by Ms. Zhao while Ms. Zhao, being the spouse of Mr. Wang, will be deemed to be interested in the share options held by Mr. Wang.

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

Save as disclosed above, as at 30 June 2010, the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

Directors' rights to acquire shares

Pursuant to the Company's share option schemes, the Company has granted options on the Company's ordinary shares in favour of certain Directors, the details of which are as follows:

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$) (Note 2)	Number of shares subject to outstanding options as at 1 January 2010	Number of options granted during the Period (Note 3)	Number of shares subject to outstanding options as at 30 June 2010 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 30 June 2010 (Aggregate)
Mr. Wang	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	400,000 (Note 4)	800,000	0.08%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	400,000 (Note 4)		
Ms. Zhao	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	100,000 (Note 4)	200,000	0.02%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	100,000 (Note 4)		
Mr. Cheung Yip Sang	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	1,950,000	3,900,000	0.37%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	1,950,000		
Mr. Zhao Jinfeng	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	1,180,000	2,360,000	0.22%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	1,180,000		
Mr. Yu Jianchao	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	1,800,000	3,600,000	0.34%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	1,800,000		
Mr. Cheng Chak Ngok	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	225,000	450,000	0.04%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	225,000		
Mr. Liang Zhiwei	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	625,000	1,250,000	0.12%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	625,000		
Ms. Zhai Xiaoqin	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	625,000	1,250,000	0.12%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	625,000		
Mr. Jin Yongsheng	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	200,000	400,000	0.04%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	200,000		
Mr. Wang Guangtian	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	100,000	200,000	0.02%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	100,000		
Ms. Yien Yu Yu, Catherine	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	100,000	200,000	0.02%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	100,000		
Mr. Kong Chung Kau	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	100,000	200,000	0.02%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	100,000		
Total				–	14,810,000	14,810,000	

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The closing price of the shares immediately before the date on which the options were granted during the Period was HK$16.22.
3. "Period" refers to the period from 1 January 2010 to 30 June 2010.
4. On 14 June 2010, Mr. Wang and Ms. Zhao were granted 800,000 and 200,000 share options respectively by the Company. Mr. Wang, being the spouse of Ms. Zhao, will be deemed to be interested in the share options held by Ms. Zhao while Ms. Zhao, being the spouse of Mr. Wang, will be deemed to be interested in the share options held by Mr. Wang.

Save as disclosed above, at no time during the period from 1 January 2010 to 30 June 2010 (the "Period") was the Company or its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

Other Information

Substantial Shareholders

As at 30 June 2010, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of shareholder	Capacity	Interest in shares: Personal interests	Interest in shares: Corporate interests	Interest in shares: Family interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares (Note 4)	Approximate percentage of the Company's total issued share capital as at 30 June 2010
Mr. Wang	Beneficial owner and interest of controlled corporation	596,000 (Note 2)	326,095,000 (Note 1)	–	326,691,000	1,000,000 (Note 3)	327,691,000 (L)	31.20%
Ms. Zhao	Interest of controlled corporation and interest of spouse	–	326,095,000 (Note 1)	596,000 (Note 2)	326,691,000	1,000,000 (Note 3)	327,691,000 (L)	31.20%
XGII	Beneficial owner	–	326,095,000 (Note 1)	–	326,095,000	–	326,095,000 (L)	31.05%
Capital Research and Management Company	Investment Manager	–	113,901,000	–	113,901,000	–	113,901,000 (L)	10.85%
Commonwealth Bank of Australia	Interest of controlled corporation	–	83,247,000	–	83,247,000	–	83,247,000 (L)	7.93%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent	–	54,691,654	–	54,691,654	–	54,691,654 (L) (including 51,498,598 (P))	5.21%

Notes:

1. The three references to 326,095,000 shares relate to the same block of shares. Such shares are held by XGII which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang.
3. On 14 June 2010, Mr. Wang and Ms. Zhao were granted 800,000 and 200,000 share options respectively by the Company. Mr. Wang, being the spouse of Ms. Zhao, will be deemed to be interested in the share options held by Ms. Zhao while Ms. Zhao, being the spouse of Mr. Wang, will be deemed to be interested in the share options held by Mr. Wang.
4. (L) represents Long Position; (P) represents Lending Pool.

Save as disclosed above, as at 30 June 2010, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company. Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2010, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Share Option Scheme

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

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

Grantee	Date of grant	Exercise period (Note 1)	Exercise price (HK$) (Note 2)	Number of shares subject to outstanding options as at 1 January 2010	Number of options granted during the Period (Note 3)	Number of shares subject to outstanding options as at 30 June 2010 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 30 June 2010 (Aggregate)
Directors	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	7,405,000	14,810,000	1.41%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	7,405,000		
Employees	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	9,340,000	18,680,000	1.78%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	9,340,000		
Total				–	33,490,000	33,490,000	3.19%

Notes:

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

2. The closing price of the shares immediately before the date on which the options were granted during the Period was HK$16.22.

3. "Period" refers to the period from 1 January 2010 to 30 June 2010.

No share option was lapsed or cancelled during the Period.

Disclosure of Information on Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, with effect from 1 January 2010, the annual salaries and allowance, among the emolument items, of Mr. Cheng Chak Ngok, the Executive Director, Financial Controller and Company Secretary of the Company, has been adjusted from HK$936,000 to HK$1,144,000.

Purchase, Sale or Redemption of Listed Securities

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

Other Information

Audit Committee

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control (including financial control, operational control, compliance control, risk management function and the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, as well as their training programmes and budget) and financial reporting matters. Members of the Audit Committee are Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau, who are all independent non-executive Directors. An audit committee meeting was held on 25 August 2010 to review the unaudited interim results and interim financial report for the six months ended 30 June 2010. Deloitte Touche Tohmatsu, the Group's external auditors, have carried out a review of the unaudited interim financial report for the six months ended 30 June 2010 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 Model Code for Securities Transactions by Directors of Listed Issuers

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

The Code on Corporate Governance Practices

To the knowledge of the Board, the Company has complied with the Code Provisions set out in the Code on Corporate Governance Practices as contained in Appendix 14 to the Listing Rules throughout the Period except a deviation from Code Provision E.1.2 because the Chairman of the Board was unable to attend the annual general meeting of the Company held on 30 June 2010 due to business trip. Alternatively, Mr. Cheng Chak Ngok, the Executive Director and Company Secretary of the Company, attended and acted as the Chairman of the said annual general meeting.

Loan Agreements Imposing Specific Performance Obligations on Controlling Shareholders

The Company issued 7-year bonds on 5 August 2005 and the terms and conditions of the bonds require Mr. Wang Yusuo, the controlling shareholder of the Company, to retain control over the Company throughout the term of the bonds. The total amount of the loan involved is US$200,000,000 (equivalent to RMB1,614,040,000).

Interests in Competitors

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

By order of the Board
WANG Yusuo
Chairman

Hong Kong, 26 August 2010

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