ENN 新奥

ENN Energy Holdings Limited

新奧能源控股有限公司

(Stock code 股份代號: 2688)

EXPANDING OUR HORIZONS ON SOLID FOUNDATION

拓展視野 憑藉穩固根基

interim report 2012

二零一二年中期業績報告

CONTENTS

Financial and Operational Highlights

Dear Shareholders,

The Board of Directors (the "Directors") of ENN Energy Holdings Limited (the "Company", and together with its subsidiaries, the "Group") is pleased to announce that the unaudited profit attributable to owners of the Company for the six months ended 30 June 2012 (the "Period") was RMB730 million, representing an increase of RMB101 million or 16.1% as compared to RMB629 million 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		
	2012 (Unaudited)	2011 (Unaudited)	Increase/ (Decrease)
Revenue (RMB million)	**8,774**	7,202	21.8%
Gross profit (RMB million)	**2,411**	1,891	27.5%
Profit attributable to owners of the Company (RMB million)	**730**	629	16.1%
Earnings per share – Basic (RMB)	**68.78 cents**	59.88 cents	14.9%
Connectable urban population	**53,389,000**	49,135,000	8.7%
Connectable residential households	**17,796,000**	16,378,000	8.7%
New natural gas connections made during the period:			
– residential households	**566,127**	522,881	8.3%
– commercial/industrial ("C/I") customers (sites)	**3,130**	2,684	446
– installed designed daily capacity for C/I customers (m^3)	**3,903,963**	3,578,678	9.1%
Accumulated number of connected natural gas customers:			
– residential households	**7,294,633**(1)	5,948,313(2)	22.6%
– C/I customers (sites)	**26,968**(1)	20,687(2)	6,281
– installed designed daily capacity for C/I customers (m^3)	**29,176,519**(1)	21,267,618(2)	37.2%
Accumulated number of connected piped gas (including natural gas) customers:			
– residential households	**7,436,007**	6,122,143	21.5%
– C/I customers (sites)	**27,327**	21,146	6,181
– installed designed daily capacity for C/I customers (m^3)	**29,737,646**	21,758,054	36.7%
Natural gas penetration rate	**41.0%**	36.3%	4.7%
Piped gas (including natural gas) penetration rate	**41.8%**	37.4%	4.4%
Unit of piped gas sold to residential households (m^3)	**510,957,000**	451,109,000	13.3%
Unit of piped gas sold to C/I customers (m^3)	**2,128,610,000**	1,741,846,000	22.2%
Unit of gas sold to vehicles (m^3)	**438,965,000**	314,635,000	39.5%
Unit of wholesale gas sold (m^3)	**118,602,000**	133,440,000	(11.1%)
Unit of bottled liquefied petroleum gas ("LPG") sold (ton)	**10,967**	17,584	(37.6%)
Unit of steam sold (ton)	**65,391**	48,498	34.8%
Number of vehicle refuelling stations	**276**	203	73
Number of natural gas processing stations	**116**	103	13
Total length of existing intermediate and main pipelines (km)	**19,952**	17,264	15.6%

Notes:

1. Including a total of 1,294,644 natural gas residential customers and 3,007 natural gas C/I customers (with a total designed daily capacity of 1,950,234m^3) from acquisition/conversion.

2. Including a total of 1,013,931 natural gas residential customers and 2,313 natural gas C/I customers (with a total designed daily capacity of 1,111,870m^3) from acquisition/conversion.

BUSINESS REVIEW

Amid the continuous domestic economic slowdown and the increasingly complicated competitive environment during the first half of 2012, in order to pursue highly efficient, steady and healthy development, the Group, supported by the concerted efforts of our employees, took advantage of our years of experience and advanced progress in different areas including informatisation, development of market and strategic performance system, promotion and application of the system efficiency concept as well as the use of active management control model to maintain persistent business growth and ensure that the half-year targets can be achieved. By doing so, we are able to enhance corporate governance significantly while further strengthening our leading position in the industry, and thus form a solid foundation for attaining continuous operational excellence in the long run.

Pipeline Construction

During the Period, gas connection fee revenue reached RMB1,694 million, representing an increase of 7.2% over the corresponding period last year and accounting for 19.3% of the total revenue. Due to the sustained increase in gas penetration rate, the largest component in the Group's source of revenue has changed from connection fees to revenue generated from gas sales which has also contributed significantly to the business growth of the Group. The average connection fees for residential households and commercial/industrial ("C/I") customers were RMB2,729 and RMB140 (per m^3) respectively. As compared to the figures in 2011, 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.

The average gas penetration rate (i.e. the ratio of the number of connected residential households actually consuming gas to the total number of residential households covered) of gas projects managed by the Group is 41.8%. According to the Group's experience, the gas penetration rate may reach as high as 80% – 90% per city. It is expected that the number of new connections made to residential households and C/I customers will increase steadily year by year and contribute additional revenue from connection fees and gas sales.

Gas Sales

During the Period, piped gas sales revenue reached RMB5,107 million, representing an increase of 32.2% over the corresponding period last year and accounting for 58.2% of the total revenue. In addition to the existing piped natural gas business, the Group also enhanced the gas combustion efficiency through technological reform so that the price competitive advantage of gas over other substitute energy can be sharpened to further strengthen existing customer base. The Group has also focused heavily on expanding business in the development zones and new regions in existing project cities and enlarging the size of its existing operational area. During the Period, the operational areas in three existing project cities have been enlarged.

Revenue from vehicle gas refuelling stations ("refuelling stations") amounted to RMB1,063 million during the Period, showing a growth of 43.5% as compared to the corresponding period last year and accounting for 12.2% of the total revenue. On the other hand, as compared to the same period last year, the number of refuelling stations has further increased from 203 to 276, being located in 71 cities of the state, among which 89 were situated in 29 cities outside piped gas projects of the Group. We will continue to expand the vehicle gas refuelling business to more cities in the future. Thanks to its contribution to environmental protection and the great reduction in fuel cost for vehicle users, natural gas refuelling station business which provides clean energy as a substitute for gasoline and diesel 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 continue to be one of the major catalysts for the growth in natural gas sales.

Through engaging in natural gas wholesale business, the Group sold part of its natural gas to customers with high gas consumption level in relatively remote areas. Although the profit margin of wholesale gas is lower than that of piped natural gas, it enables the Group to utilise existing gas equipments and the well-established fleet of trucks more effectively to increase our gas sales revenue and enhance our overall returns on investments. During the Period, the revenue from wholesale of gas reached RMB552 million, representing a decrease of 5.6% as compared to the corresponding period last year and accounting for 6.3% of the total revenue.

Sales of piped gas, vehicle gas and wholesale gas continue to accelerate, contributing to 76.7% of the total revenue in aggregate. As compared with the figure of 72.0% during the corresponding period last year, gas sales revenue has achieved a further growth and is still 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. It is expected that the percentage of gas sales revenue over total revenue will continue to increase in the future.

During the Period, sales revenue from bottled liquefied petroleum gas ("LPG") reached RMB74 million, representing a decrease of 27.5% as compared to the corresponding period last year, leading to a shrink in its share over the total revenue from 1.4% in the corresponding period last year to 0.8%. 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 much higher margins.

Gross and Net Profit Margins

During the Period, the overall gross profit margin and net profit margin (before non-controlling interests) of the Group were 27.5% and 11.3% respectively, representing an increase of 1.2% and a decrease of 0.4% respectively as compared to the corresponding period last year.

Benefited by the new gas sources from the West-East Pipeline II for some of the Group's projects since 2012, the gas purchasing cost has dropped and thus increased the Group's gross profit margin during the Period. The fact that some of our projects secured new gas sources from different pipelines and hence reduced the gas purchasing cost has evidenced the Group's achievements in enlarging its investments to build pipeline infrastructure in recent years which enabled more gas projects gaining direct access to piped natural gas. During the Period, the profit margin for piped gas and vehicle gas refuelling businesses increased from 17.3% and 20.4% to 20.0% and 22.6% respectively, and hence established an even better revenue base for the Group in the long run. Moreover, in terms of cost management, by adopting activity-based costing to further optimise the procedures and structures of group companies, the Group has successfully reduced its cost during the Period.

The slight decrease in net profit margin was mainly attributed to foreign exchange impact during the Period. Due to the depreciation in Renminbi at the end of the Period comparing with the end of 2011, the Group recorded a non-cash exchange loss of RMB12.36 million (30 June 2011: exchange gains of RMB59.31 million) on its books for the US$750 million bond and other foreign currency loans, and it caused the profits for the Period to reduce by RMB71.67 million as compared with the corresponding period last year. Although the additional agency fees and costs arising from fund preparation for the proposed acquisition of China Gas Holdings Limited reduced our profits for the Period, it is expected that such impact will no longer exist once the project is closed. If the impact of these one-off revenue and expenses incurred during the Period and the corresponding period last year was eliminated, the net profit of the Group's core businesses grew by over 23%, achieving the target set at the beginning of the year.

New Projects

During the Period, the Group secured the following seven new piped gas projects and independent industrial park projects:

Province	City	Connectable urban population
Hebei	Gaocheng City	180,000
Hebei	Shenze County	40,000
Hebei	Wenan Industrial Park	–
Fujian	Longyan Development Zone	170,000
Henan	Xinxiang Weifei City (Tangzhuang Town) Industrial Agglomeration Zone	30,000
Shandong	Qingdao Sino-German Ecopark	–
Zhejiang	Wenzhou Wanquan Light Industrial Base	–

The commercial and industrial developments are relatively robust in these projects. The largest industries in Gaocheng City include chemical, food, building materials, light textile, mechanics and medicine while in Shenze County, paper-making, mechanical processing, textile and medicine industries are relatively well-established. In Wenan Industrial Park, primary industries are the manufacturing of electronic products, wood products, electric wires and cables, mechanical and automobile assemblies. After acquiring the above projects which are located in the proximity of the Group's existing project Shijiazhuang and Langfang, the number of urban gas projects of the Group in Hebei Province increased to ten and the operational efficiency could be enhanced by fully optimising the management and operational advantages and economies of scale in the existing projects. On the other hand, the automobile and machining industries in Longyan Development Zone of Fujian Province are quite well-developed while in Xinxiang Weifei City (Tangzhuang Town) Industrial Agglomeration Zone in Henan Province, the production of advanced energy-saving building materials and modern food industries are leading the market; With high-end manufacturing as the core industries, the Qingdao Sino-German Ecopark is mainly focusing on the development of the commercial and financial sectors and the production of modern daily products inside the park. In Wenzhou Wanquan Light Industrial Base in Zhejiang Province, the leading industries are the manufacturing of mechanics, electroplating and home furniture products.

During the Period, the Group also acquired the following 12 industrial park projects under our existing urban gas projects:

Province	Industrial park
Anhui	Bozhou Wuhu Modern Industrial Park
Guangdong	Zhaoqing Beishui Ceramics Industrial Park
Hebei	Tangshan Luanxian Equipment Production Industrial Park
Hebei	Xinji Clean Chemical Industrial Park
Hunan	Heling Industrial Park
Jiangsu	Haian Changan Textile Science and Technology Park
Jiangsu	Lianyungang Dongxin Farm
Shandong	Binzhou Beihai New Zone
Shandong	Dongying Animal Husbandry Demonstration Zone
Zhejiang	Huzhou Miaoxi Southern Development Zone
Zhejiang	Wenzhou Jinhai Park
Zhejiang	Wenzhou Konggang Park

As the industrial customers are centralised in the industrial parks, it is favourable for the Group to enlarge gas sales scale. It is expected that the natural gas sales volume of the above new projects will reach nearly 1 billion cubic meters per year after maturity. Given that industrial park project contributes enormous gas sales but requires a lower level of investments on pipeline network, it can further enlarge the gas sales scale and generate higher returns on investments for the Group. Therefore, it is the key business expansion strategy adopted by the Group to acquire more industrial park projects.

As of 30 June 2012, the number of gas projects in China managed by the Group is 110, with a total connectable population of 53,389,000. Currently, pipeline network and gas sources in China are still actively under development and so upcoming opportunities in acquiring new projects can be expected in the future, providing a solid foundation and good opportunities for further growth for the Group.

Human Resources

As at 30 June 2012, the total number of staff employed by the Group was 22,541, of which 12 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 2012, the Group's bank balances and cash amounted to RMB6,155 million (31 December 2011: RMB5,875 million) which include cash and cash equivalents (including fixed bank deposits) of RMB3,623 million (31 December 2011: RMB3,355 million) and a bank deposit of RMB2,532 million (31 December 2011: RMB2,520 million) in the restricted bank deposits as an escrow for an pre-conditional offer. Total debts amounted to RMB11,657 million (31 December 2011: RMB10,672 million) while the net gearing ratio, i.e. the ratio of net debt to equity (including non-controlling interests), was 57.7% (31 December 2011: 54.3%).

Ten-year 6% Fixed Rate Bonds

On 13 May 2011, the Company issued 10-year bonds in the aggregate principal amount of US$750 million (equivalent to RMB4,863 million) with issue price of 99.274% and redemption price of 100%. The coupon of the bonds is 6.0%, and interests are paid semi-annually. The terms of the bonds require Mr. Wang Yusuo, the Chairman of the Company, to retain not less than 25% of the issued share capital of the Company throughout the term of the bonds.

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.

Borrowings Structure

As at 30 June 2012, the Group's total debts amounted to RMB11,657 million (31 December 2011: RMB10,672 million), including loans and bonds of US$775 million (equivalent to RMB4,901 million) and mortgage loans of HK$10,203,000 (equivalent to RMB8,318,000). Apart from the US$750 million 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 RMB1,109 million that are secured by assets with the carrying amount equivalent to RMB96,134,000, all of the other loans are unsecured. Short-term loans were equivalent to RMB4,976 million while the remaining were long-term loans falling due after one year or above.

As all of the operations of the Group are in China, except for the loans and bonds of US$775 million and HK$10,203,000 which are denominated in US dollars and Hong Kong dollars respectively, revenues and expenses were mainly denominated in Renminbi. Hence, there were no significant foreign exchange exposures or risks. The Group currently does not have foreign currency hedging policy but the Directors will monitor the market trends of exchange rates and interest rates closely and adopt appropriate measures when necessary.

Financial Guarantee Liability

As at 30 June 2012, the Group had issued guarantees to banks to secure loan facilities granted to associates and jointly controlled entities to the extent of RMB45 million (31 December 2011: RMB45 million) and RMB50 million (31 December 2011: RMB50 million) respectively. The amounts have been utilised at the balance sheet date.

Commitments

(a) *Capital commitments*

	At 30 June 2012 RMB million	At 31 December 2011 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	**114**	124
Capital commitment in respect of investments in associates or jointly controlled entities	**84**	57

(b) *Other commitments*

As at 30 June 2012, the Group has commitment amounting to RMB30 million (31 December 2011: RMB32 million) in respect of acquisition of land use rights in the PRC.

(c) *Pre-conditional commitment*

In the announcement dated 12 December 2011 (the "Announcement"), China Petroleum & Chemical Corporation ("Sinopec") and the Company jointly announced the formation of a consortium and intend to, subject to the satisfaction or waiver (as applicable) of the pre-conditions as set out in the Announcement, make a voluntary conditional cash offer (the "Offer") (i) to acquire all of the outstanding shares in the issued share capital of China Gas Holdings Limited ("China Gas") (other than those shares in China Gas already held by Sinopec or the Company or other parties acting in concert with Sinopec or the Company) at cash consideration of HK$3.50 per share and (ii) to cancel all outstanding share options in China Gas at cash consideration of HK$0.90 to HK$2.79 per share option.

As stated in the Announcement, with respect of the Company, assuming that all the outstanding share options are exercised before the close of the Offer and the share offer is accepted in full, the financial resources required by the Company in order to satisfy the obligations in respect of full acceptance of the Offer amount to approximately HK$9,185 million (equivalent to approximately RMB7,446 million).

Pursuant to the announcement dated 6 August 2012 jointly made by Sinopec and the Company, the Long Stop Date, which is the last date for the offerors to confirm that the pre-conditions to the Offer are satisfied or waived (as applicable), was extended to 6 September 2012.

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 and liquefied 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.

On 27 June 2012, the Chinese government has issued *The Planning for National Urban Gas Development During the 12th Five-Year Plan* (the "Planning"). According to the Planning, during the 12th Five-Year Plan, in order to promote healthy and stable development of the urban gas industry, China will insist on using natural gas in primary consumption, LPG and manufactured coal gas as second choice, with other substitute gas as supplements. Moreover, to facilitate energy saving and emission reduction, the research and development activities on technology and independent innovation must be carried on. By expanding the scope and depth of service in urban gas industry, the use of natural gas distributed energy and natural gas vehicles can be vigorously promoted, leading to an improvement in the consumption pattern, saving level and utilisation efficiency of energy.

In addition, the Planning also clearly suggests that by the end of the 12th Five-Year Plan, the total supply capacity of urban gas will reach approximately 178.2 billion cubic meters, representing an increase of 113% over the end of the 11th Five-Year Plan, which includes supply capacity of natural gas of approximately 120 billion cubic meters. In respect of gas consumption, by the end of the 12th Five-Year Plan, the connected residential population will reach over 625 million, with a consumption level of 33 billion cubic meters; the consumption by industrial, commercial and service providing enterprises will reach 81 billion cubic meters while the consumption by transportation users will reach 30 billion cubic meters; there will be a consumption of 12 billion cubic meters by distributed energy projects and 22.2 billion cubic meters by other users as well. In respect of pipeline network, it is expected that there will be newly constructed pipelines of approximately 250,000 km in length in urban areas during the 12th Five-Year Plan, resulting in a total length of 600,000 km by the end of the 12th Five-Year Plan. Moreover, in respect of gas sources for emergency use and infrastructure construction, the gas storage ability for emergency use will be greatly enhanced by the end of the 12th Five-Year Plan, leading to a total storage capacity of approximately 1.5 billion cubic meters for emergency use.

The issue of the Planning not only guarantees considerable growth in the Group's well-established, mature business segments (i.e. supply of gas to C/I customers, CNG vehicle users and residential households) in the future but also provides huge development potentials for the recently advanced developed business areas such as distributed energy projects and vehicle/ship-use LNG business. During the Period, substantial progress was achieved for the Group's distributed energy projects as the construction for two projects, including the Zhuzhou Shennong Cultural Park and the Qingdao Sino-German Ecopark has commenced and is expected to begin operation within one or two years. Through integrated use of natural gas, the above three projects fully utilise the concept of energy efficiency to provide customers with different forms of energy such as cool, heat and power, so that the cost of energy consumption can be reduced while satisfying customers' demand for energy and enhancing the Group's profitability at the same time. On the other hand, the Group completed 112 energy saving and refit projects for industrial customers during the Period. These projects, with an annual gas consumption of over 186 million cubic meters of natural gas in total, greatly increase energy consumption efficiency and reduce cost and emission through the provision of technological enhancement and equipment refit. Moreover, the vehicle/ship-use LNG business has also grown rapidly during the Period, with 23 new LNG vehicle refuelling stations launched, accumulating to a total of 42 refuelling stations providing clean and economy LNG for 1,601 heavy trucks and buses.

Given that our downstream projects could be benefited directly by the supportive policies of the central government, the Group has started to enlarge its investments during the past few years. The capital expenditure per year has gradually increased from RMB1.5 billion in previous years to over RMB2.5 billion, showing that the Group has high confidence on the industry and its own projects. As a result, it is expected that the sales volume of natural gas of the Group will achieve further growth in the future. During the Period, a number of the Group's projects have successfully gained direct access to piped natural gas sources and hence stimulated both the gas sales and the profit margin of sales of piped gas to over 20% from 16.1% last year, fully exhibiting the fruitful results of the Group's investing efforts.

Under the macro environment and the background of energy saving and emission reduction, 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 favour of 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.

During the Period, we have received a number of honours, including the medal and certificate of "Transformation in China: Pioneer Enterprise in Promoting Low-Carbon Economy" awarded to the Group and "Transformation in China: Personal Outstanding Contribution" awarded to our Chief Executive Officer by the China Enterprises Co-Association and the Organising Committee of the Development of Non-Public Enterprises Forum, as well as the four honourable titles, namely, "China's Best Service Management", "China's Best Sales Office", "China's Best Customer Service Manager" and "China's Outstanding Customer Service Representative" in the 7th Best Customer Service in China Award 2011-2012. In addition, during the Period, we were informed by the *Institutional Investor* that, among four of the awards in their global polling The 2012 All-Asia Executive Team participated by institutional investors and analysts from investment banks, we were honoured to be voted as the Best CEOs (Rank No. 1), the Best CFOs (Rank No. 1) and the Best Investor Relations (Rank No. 2) under the category of power sector in Asia. It is generally known that the polling conducted by the *Institutional Investor* is one of the most influential and recognised surveys in the financial sector, and the awards received by the Group show that both the business performance and quality of work by the management team of the Group are highly acclaimed among investors, shareholders and analysts in the sector. We will continue to redouble our efforts to ensure that the investment community and our shareholders will be able to share the fruitful results that come along with the rapid development of the natural gas industry. Taking this opportunity, we would also like to express our heartfelt gratitude to our shareholders, institutional investors, analysts in the sector, as well as our management team and staff.

Deloitte.
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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
TO THE BOARD OF DIRECTORS OF ENN ENERGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of ENN Energy Holdings Limited (the "Company") and its subsidiaries set out on pages 11 to 37, which comprise the condensed consolidated statement of financial position as of 30 June 2012 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 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
27 August 2012

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 RMB million (unaudited)	2011 RMB million (unaudited)
Revenue	3	**8,774**	7,202
Cost of sales		**(6,363)**	(5,311)
Gross profit		**2,411**	1,891
Other income	4	**94**	84
Other gains and losses	5	**3**	(20)
Distribution and selling expenses		**(169)**	(126)
Administrative expenses		**(785)**	(607)
Share of results of associates		**22**	12
Share of results of jointly controlled entities		**135**	172
Finance costs	6	**(309)**	(238)
Profit before tax	7	**1,402**	1,168
Income tax expense	8	**(414)**	(327)
Profit and total comprehensive income for the period		**988**	841
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**730**	629
Non-controlling interests		**258**	212
		988	841
Earnings per share	10		
Basic		**68.78 cents**	59.88 cents
Diluted		**68.54 cents**	59.30 cents

Condensed Consolidated Statement of Financial Position

At 30 June 2012

	Notes	**At 30 June 2012 RMB million (unaudited)**	At 31 December 2011 RMB million (audited)
Non-current assets			
Property, plant and equipment	11	**13,904**	13,073
Prepaid lease payments	11	**723**	695
Investment properties	11	**57**	57
Goodwill		**196**	196
Intangible assets	12	**1,239**	1,051
Interests in associates		**766**	694
Interests in jointly controlled entities		**1,814**	1,733
Available-for-sale financial assets		**14**	14
Loan receivable		**2**	3
Other receivables	13	**7**	5
Amounts due from associates		**42**	39
Amounts due from jointly controlled entities		**98**	66
Amounts due from related companies		**24**	26
Deferred tax assets	8	**216**	176
Deposits paid for investments		**137**	41
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights		**65**	68
Restricted bank deposits	14	**10**	7
		19,314	17,944
Current assets			
Inventories		**297**	272
Trade and other receivables	13	**1,956**	1,837
Prepaid lease payments	11	**15**	17
Amounts due from customers for contract work		**183**	201
Amounts due from associates	15	**129**	31
Amounts due from jointly controlled entities	16	**656**	404
Amounts due from related companies		**60**	31
Restricted bank deposits	14	**2,752**	2,675
Cash and cash equivalents		**3,618**	3,349
		9,666	8,817
Assets classified as held for sale	17	**74**	127
		9,740	8,944

	Notes	At 30 June 2012 RMB million (unaudited)	At 31 December 2011 RMB million (audited)
Current liabilities			
Trade and other payables	18	**4,172**	4,172
Amounts due to customers for contract work		**964**	989
Amounts due to associates	15	**112**	119
Amounts due to jointly controlled entities	16	**705**	627
Amounts due to related companies		**31**	37
Taxation payables		**247**	234
Bank and other loans – due within one year	19	**3,636**	1,913
Short-term debentures	20	**1,340**	1,300
Financial guarantee liability		**4**	9
Dividend payable		**315**	–
Deferred income	21	**53**	44
		11,579	9,444
Liabilities associated with assets held for sale	17	**63**	76
		11,642	9,520
Net current liabilities		**(1,902)**	(576)
Total assets less current liabilities		**17,412**	17,368
Capital and reserves			
Share capital	22	**111**	110
Reserves		**7,577**	6,936
Equity attributable to owners of the Company		**7,688**	7,046
Non-controlling interests		**1,851**	1,794
Total equity		**9,539**	8,840
Non-current liabilities			
Bank and other loans – due after one year	19	**1,531**	2,327
Corporate bond		**496**	496
Senior notes		**4,654**	4,636
Deferred tax liabilities	8	**343**	337
Deferred income	21	**849**	732
		7,873	8,528
		17,412	17,368

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

Six months ended 30 June 2012 (unaudited)

	Equity attributable to owners of the Company									
	Share capital RMB million	Share premium RMB million	Special reserve RMB million (note c)	Share option reserve RMB million	Statutory surplus reserve fund RMB million (note a)	Designated safety fund reserve RMB million (note b)	Accumulated profits RMB million	Total RMB million	Equity attributable to non-controlling interests RMB million	Total equity RMB million
At 1 January 2012	110	2,202	(18)	142	409	38	4,163	7,046	1,794	8,840
Profit for the period and total comprehensive income for the period	–	–	–	–	–	–	730	730	258	988
Recognition of equity settled share-based payment	–	–	–	21	–	–	–	21	–	21
Acquisition of subsidiaries (Note 23)	–	–	–	–	–	–	–	–	15	15
Capital contribution from non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	16	16
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(216)	(216)
Transfer to statutory surplus reserve fund	–	–	–	–	42	–	(42)	–	–	–
Dividend recognised as distribution (Note 9)	–	–	–	–	–	–	(313)	(313)	–	(313)
Disposal of subsidiaries (Notes 24 & 25)	–	–	–	–	–	–	–	–	(16)	(16)
Exercise of share option (Note 22)	1	273	–	(70)	–	–	–	204	–	204
Transfer to designated safety fund reserve	–	–	–	–	–	1	(1)	–	–	–
At 30 June 2012	111	2,475	(18)	93	451	39	4,537	7,688	1,851	9,539

Six months ended 30 June 2011 (unaudited)

	Equity attributable to owners of the Company									
	Share capital RMB million	Share premium RMB million	Special reserve RMB million (note c)	Share option reserve RMB million	Statutory surplus reserve fund RMB million (note a)	Designated safety fund reserve RMB million (note b)	Accumulated profits RMB million	Total RMB million	Equity attributable to non-controlling interests RMB million	Total equity RMB million
At 1 January 2011	110	2,184	(17)	101	368	26	3,260	6,032	1,508	7,540
Profit for the period and total comprehensive income for the period	–	–	–	–	–	–	629	629	212	841
Recognition of equity settled share-based payment	–	–	–	23	–	–	–	23	–	23
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	1	1
Capital contribution from non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	3	3
Dividend recognised as distribution (Note 9)	–	–	–	–	–	–	(297)	(297)	–	(297)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(151)	(151)
Transfer to statutory surplus reserve fund	–	–	–	–	11	–	(11)	–	–	–
Transfer to designated safety fund reserve	–	–	–	–	–	7	(7)	–	–	–
At 30 June 2011	110	2,184	(17)	124	379	33	3,574	6,387	1,573	7,960

Notes:

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

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

c. The amount at 30 June 2011 represented the difference between the paid-up capital of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition amounting to RMB2 million during the group restructuring carried out for the purpose of initial public offering of the Company's shares in 2001 and the difference between the fair values and the carrying values of the underlying assets and liabilities attributable to the additional interests in a subsidiary amounting to RMB19 million.

After 30 June 2011, the Group acquired additional interest in a subsidiary from a non-controlling shareholder, the difference between the consideration paid and the carrying amount of non-controlling interests in respect of the additional interest in a subsidiary of RMB1 million is dealt with in reserve and attributable to owners of the Company.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Note	Six months ended 30 June **2012** **RMB million** **(unaudited)**	 2011 RMB million (unaudited)
Net cash from operating activities		**1,295**	1,051
Investing activities			
Deferred income received		**150**	122
Purchase of property, plant and equipment		**(1,334)**	(982)
Net cash outflow on acquisition of subsidiaries	23	**(124)**	(31)
(Increase) decrease in restricted bank deposits		**(80)**	22
Other investing activities		**(369)**	(237)
Net cash used in investing activities		**(1,757)**	(1,106)
Financing activities			
Dividends paid to owners of the Company		**–**	(297)
New bank loans raised		**3,721**	2,210
Repayment of bank loans		**(2,674)**	(2,615)
Repayment of guaranteed notes, including premium		**–**	(1,389)
Proceeds from issue of senior notes		**–**	4,863
Expenses from issue of senior notes		**–**	(66)
Proceeds from issue of corporate bond		**–**	500
Expenses from issue of corporate bond		**–**	(5)
Other financing activities		**(317)**	(340)
Net cash from financing activities		**730**	2,861
Increase in cash and cash equivalents		**268**	2,806
Cash and cash equivalents at the beginning of the period		**3,355**	2,851
Cash and cash equivalents at the end of the period		**3,623**	5,657
Represented by:			
Cash and cash equivalents included in assets classified as held for sale		**5**	–
Cash and cash equivalents at the end of the period		**3,618**	5,657
		3,623	5,657

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

1. Basis of Preparation

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

In preparing the condensed consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration of the Group in light of its net current liabilities of approximately RMB1,902 million as at 30 June 2012. Having considered the secured credit facilities of approximately RMB5,486 million which remain unutilised at the date of approval of the condensed consolidated financial statements, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements for the period ended 30 June 2012 have been prepared on a going concern basis.

In addition, the Directors have also considered the impact of the potential obligations under the pre-conditional general offer of the shares of China Gas Holdings Limited (the "Offer") announced by the Company on 12 December 2011 on the Group's financial position and are confident that the Group can obtain sufficient funding and banking facilities to finance the acquisition had the Offer been successfully made in 2012.

2. Principal Accounting Policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

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

HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Transfers of Financial Assets; and
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

2. Principal Accounting Policies *(continued)*

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

Under the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the Directors reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time through rental income and that the presumption set out in the amendments to HKAS 12 is rebutted.

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

3. Segment Information

Information reported to the chief operating decision maker, the Company's Chief Executive Officer (the "CEO") for the purposes of resources allocation and performance assessment among segments focuses specifically on different type of goods and services. Specifically, the Group's operating and reportable segment under HKFRS 8 are gas connection segment, sales of piped gas segment, vehicle refuelling stations segment, wholesale of gas segment, distributions of bottled liquefied petroleum gas segment, sales of gas appliances segment and sales of material segment.

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

Six months ended 30 June 2012 (unaudited)

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Distributions of bottled liquefied petroleum gas RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Revenue from external customers	1,694	5,107	1,063	552	74	43	241	8,774
Segment profit before depreciation and amortisation	1,081	1,193	258	49	2	18	34	2,635
Depreciation and amortisation	(28)	(172)	(18)	(3)	(2)	(1)	–	(224)
Segment profit	1,053	1,021	240	46	–	17	34	2,411

3. Segment Information *(continued)*

Six months ended 30 June 2011 (unaudited)

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Distributions of bottled liquefied petroleum gas RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Revenue from external customers	1,580	3,863	741	585	102	43	288	7,202
Segment profit before depreciation and amortisation	995	807	163	66	4	16	25	2,076
Depreciation and amortisation	(28)	(137)	(12)	(5)	(2)	(1)	–	(185)
Segment profit	967	670	151	61	2	15	25	1,891

Segment profit represents the gross profit earned by each segment without allocation of other income, other gains and losses, distribution and selling expenses, administrative expenses, share of results of associates and jointly controlled entities, finance costs and income tax expense. This is the measure reported to the CEO for the purposes of resources allocation and performance assessment.

4. Other Income

	Six months ended 30 June 2012 RMB million	Six months ended 30 June 2011 RMB million
Other income includes:		
Incentive subsidies (Note)	**28**	33
Interest income	**19**	14
Rental income from investment properties, net	**1**	1
Financial guarantee income	**4**	1

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.

5. Other Gains and Losses

	Six months ended 30 June	
	2012	2011
	RMB million	RMB million
Impairment loss reversed (recognised) on:		
– Trade receivables	**1**	(8)
– Other receivables	**7**	27
Loss on disposal of property, plant and equipment	**–**	(3)
Gain of derecognition of subsidiaries (Notes 24 & 25)	**28**	–
Early redemption premium of guaranteed notes (note a)	**–**	(95)
(Loss) gain on foreign exchange, net (note b)	**(14)**	59
Arrangement fee of banking facilities (note c)	**(19)**	–
	3	(20)

Notes:

a. On 28 June 2011 (the "Redemption Date"), the Company redeemed the entire outstanding guaranteed notes in full at a redemption price equal to 100% of the principal amount outstanding thereof which was US$200 million (equivalent to approximately RMB1,294 million), plus the applicable premium of approximately US$15 million (equivalent to approximately RMB95 million) and accrued and unpaid interest of approximately US$6 million (equivalent to approximately RMB38 million) as of the Redemption Date. The guaranteed notes were originally matured in 2012. The premium of approximately RMB95 million was recognised.

b. Included in the balance for the period ended 30 June 2012 is an amount of approximately RMB18 million which is the exchange loss arising from the translation of senior notes denominated in United State dollar to RMB.

c. The arrangement fee is in connection with the pre-conditional commitment set out in Note 26 (c) and is non-refundable notwithstanding whether the related banking facilities are utilised.

6. Finance Costs

	Six months ended 30 June	
	2012	2011
	RMB million	RMB million
Interest on:		
Bank and other loans wholly repayable within five years	**113**	77
Bank loans not wholly repayable within five years	**39**	53
Guaranteed notes	**–**	55
Short-term debentures	**40**	13
Senior notes	**142**	37
Corporate bond	**16**	12
	350	247
Less: Amount capitalised under construction in progress	**(41)**	(9)
	309	238

7. Profit Before Tax

	Six months ended 30 June	
	2012	2011
	RMB million	RMB million
Profit before tax has been arrived at after charging:		
Share-based payment expenses		
(included in administrative expenses)	**21**	23
Depreciation and amortisation:		
– property, plant and equipment	**274**	231
– intangible assets	**30**	17
Total depreciation and amortisation (Note)	**304**	248
Release of prepaid lease payments	**10**	7
Research and development expenses	**2**	2

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

	Six months ended 30 June	
	2012	2011
	RMB million	RMB million
Depreciation and amortisation included in:		
Cost of sales	**224**	185
Administrative expenses	**80**	63
	304	248

8. Income Tax Expense

	Six months ended 30 June	
	2012	2011
	RMB million	RMB million
PRC Enterprise Income Tax	**448**	345
Deferred taxation	**(34)**	(18)
	414	327

PRC Enterprise Income Tax of the Group mainly comprises income tax of the Company and its subsidiaries. The PRC Enterprise Income Tax rate is 25% for the six months ended 30 June 2012 (six months ended 30 June 2011: 25%).

The Group's effective income tax rate for the six months ended 30 June 2012 is 29.5% (six months ended 30 June 2011: 28.0%) as a result of an increase of the preferential tax rate of certain subsidiaries of the Group. During the six months ended 30 June 2012, the preferential tax rate applicable to these subsidiaries is 25% (six months ended 30 June 2011: 24% to 25%) and the reduced tax rate is 12.5% (six months ended 30 June 2011: 12% to 12.5%). In addition, during the six months ended 30 June 2012, the Group has not recognised the deferred tax assets in respect of the unused tax losses of RMB376 million (six months ended 30 June 2011: RMB294 million) due to the uncertainty of future profit streams.

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

For the purposes of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	At 30 June 2012 RMB million	At 31 December 2011 RMB million
Deferred tax assets	**216**	176
Deferred tax liabilities	**(343)**	(337)
	(127)	(161)

8. Income Tax Expense *(continued)*

The followings are the major deferred tax liabilities and assets recognised and movements thereon during the current and preceding interim periods:

	Attributable to						
	Valuation of properties RMB million	Intangible assets RMB million	Capitalisation of interest in property, plant and equipment RMB million	Undistributed retained profit of PRC entities from 1 January 2008 RMB million (Note)	Deferred income RMB million	Others RMB million	Total RMB million
At 1 January 2011	5	142	44	37	(134)	–	94
Acquisition of a business	–	7	–	–	–	–	7
(Credit) charge to profit or loss	–	(3)	1	11	(27)	–	(18)
At 30 June 2011	5	146	45	48	(161)	–	83
At 1 January 2012	5	231	65	56	(196)	–	161
(Credit) charge to profit or loss	–	(6)	9	11	(30)	(18)	(34)
At 30 June 2012	5	225	74	67	(226)	(18)	127

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 total amount of undistributed retained profits of certain PRC entities from 1 January 2008 attributable to non-PRC shareholders as the Directors consider the amount will probably be reversed in the foreseeable future upon distribution of profit by the respective group entities.

9. Dividend

The final dividend in respect of fiscal year 2011 of HK$36.23 cents (equivalent to approximately RMB29.37 cents) per share on 1,066,594,397 shares (six months ended 30 June 2011: final dividend in respect of 2010 of HK$28.35 cents (equivalent to approximately RMB24.12 cents) per share) amounting to approximately RMB313 million (six months ended 30 June 2011: RMB248 million) were declared on 25 March 2012 and were not paid as at 30 June 2012.

During the six months ended 30 June 2011, there was a special dividend in respect of fiscal year 2010 of HK$5.66 cents (equivalent to approximately RMB4.82 cents) per share amounting to approximately RMB49 million, which was declared on 25 March 2011 and was paid on 22 June 2011.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: 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	
	2012	2011
	RMB million	RMB million
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share	**730**	629

	Six months ended 30 June	
	2012	2011
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,062,064**	1,050,149
Effect of dilutive potential ordinary shares arising from share options	**3,582**	10,233
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,065,646**	1,060,382

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

During the six months ended 30 June 2012, the Group acquired property, plant and equipment and prepaid lease payments amounting to approximately RMB1,334 million and RMB44 million (six months ended 30 June 2011: RMB982 million and RMB24 million) respectively.

In addition, through acquisition of subsidiaries or business, the Group's property, plant and equipment and prepaid lease payments increased by approximately RMB3 million and RMB2 million respectively (six months ended 30 June 2011: RMB23 million and RMB2 million respectively) during the current interim period.

The valuation of the Group's investment properties at 31 December 2011 was carried out by Knight Frank Petty Limited, on an open market value basis. The Directors consider that the fair values of the investment properties at 30 June 2012 were not significantly different from their fair values on 31 December 2011.

12. Intangible Assets

During the six months ended 30 June 2012, through acquisition of subsidiaries or business, the Group's intangible assets increased by approximately RMB218 million (six months ended 30 June 2011: RMB27 million).

13. Trade and Other Receivables

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

	At 30 June 2012 RMB million	At 31 December 2011 RMB million
0-3 months	**406**	358
4-6 months	**40**	58
7-9 months	**42**	29
10-12 months	**20**	10
More than 1 year	**7**	8
Total trade receivables (Note)	**515**	463
Other receivables	**438**	341
Notes receivable	**400**	318
Advance to suppliers, deposits and prepayments	**610**	720
	1,963	1,842
Analysed for reporting purpose as:		
Current portion	**1,956**	1,837
Non-current portion	**7**	5
	1,963	1,842

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

14. Restricted Bank Deposits

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, deposits pledged to local government to secure the rights of operations and bank deposits in escrow for the Offer set out in note 26(c).

Restricted bank deposits classified as non-current assets represent the bank deposits pledged to local government to secure the rights of operations.

The restricted bank deposits carry fixed interest rate range from 0.30% to 0.40% per annum (31 December 2011: 0.30% to 0.36%). The restricted bank deposits will be released upon the settlement of relevant bill facilities and the expiry of purchase contracts or operation rights.

15. Amounts Due from/to Associates

Included in the amounts due from/to associate are trade receivables amounting to RMB33 million (31 December 2011: RMB20 million) and trade payables amounting to RMB1 million (31 December 2011: RMB14 million) and the aged analysis is as follows:

	At 30 June 2012 RMB million	At 31 December 2011 RMB million
Trade receivables due from associates		
0-3 months	**18**	9
4-6 months	**3**	3
7-9 months	**4**	2
10-12 months	**2**	1
More than 1 year	**6**	5
	33	20

	At 30 June 2012 RMB million	At 31 December 2011 RMB million
Trade payables due to associates		
Within three months	**1**	13
4-6 months	**–**	1
	1	14

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

16. Amounts Due from/to Jointly Controlled Entities

Included in the amounts due from/to jointly controlled entities are trade receivables amounting to RMB350 million (31 December 2011: RMB217 million) and trade payables amounting to RMB187 million (31 December 2011: RMB125 million) and the aged analysis is as follow:

	At 30 June 2012 RMB million	At 31 December 2011 RMB million
Trade receivables due from jointly controlled entities		
0-3 months	**176**	155
4-6 months	**80**	29
7-9 months	**51**	12
10-12 months	**21**	4
More than 1 year	**22**	17
	350	217

	At 30 June 2012 RMB million	At 31 December 2011 RMB million
Trade payables due to jointly controlled entities		
0-3 months	**147**	93
4-6 months	**38**	4
7-9 months	**–**	5
More than 1 year	**2**	23
	187	125

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, the above balances are not overdue.

17. Assets Classified As Held for Sale/Liabilities Associated with Assets Held for Sale

The amount as of 31 December 2011 represented the assets and liabilities of the Group's 95% owned subsidiary, 北京新奧燃氣有限公司 (Beijing Xinao Gas Company Limited), which was disposed of during the current interim period set out in Note 24, and 80% owned subsidiary, 北京新奧京昌燃氣有限公司 (Beijing Xinao Jingchang Gas Company Limited) and the carrying amount of certain property, plant and equipment of 新奧燃氣發展有限公司 of which are stated at the lower of the carrying amount and fair value less costs to sell.

Pursuant to various equity and assets transfer agreements between the Group and the buyers dated 1 December 2011, the Group agreed to sell the equity interest in Beijing Xinao Jingchang Gas Company Limited and certain property, plant and equipment at an aggregate consideration of RMB73 million as at 30 June 2012, out of which RMB48 million (31 December 2011: RMB42 million) was received as a deposit for the transaction which was classified as liability associated with assets classified as held for sales at 30 June 2012. The remaining consideration will be settled upon completion of the transaction which is expected to be in 2012.

18. Trade and Other Payables

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

	At 30 June 2012 RMB million	At 31 December 2011 RMB million
0-3 months	**1,102**	1,060
4-6 months	**76**	191
7-9 months	**55**	34
10-12 months	**17**	13
More than 1 year	**88**	139
Total trade payables	**1,338**	1,437
Advances received from customers	**2,185**	2,050
Accrued charges and other payables	**649**	685
	4,172	4,172

19. Bank and Other Loans

During the current interim period, the Group obtained new bank loans in the amount of RMB3,721 million (six months ended 30 June 2011: RMB2,210 million) and made repayments in the amount of RMB2,674 million (six months ended 30 June 2011: RMB2,615 million). The loans bear interest at the range from 2.05% to 8.12% per annum (31 December 2011: 2.22% to 8.80% per annum). These proceeds were used to finance the capital expenditure and general working capital of the Group.

At 30 June 2012, certain assets of the Group with aggregate carrying value of RMB96 million (31 December 2011: RMB53 million) were pledged as security for bank and other loans, bills facilities and contracts granted to the Group, its associates and jointly controlled entities.

20. Short-term Debentures

The balance at 30 June 2012 represents the short-term debenture issued to third party with face value of RMB1,300 million (31 December 2011: RMB1,300 million) and the accrued interests of RMB40 million (31 December 2011: RMB2 million). The amount was unsecured, carries interest at 5.9% per annum and is repayable on 19 December 2012.

21. Deferred Income

	At 30 June 2012 RMB million	At 31 December 2011 RMB million
Balance at beginning of the period/year	**776**	531
Additions	**150**	281
Release to profit or loss	**(24)**	(36)
Balance at end of the period/year	**902**	776
Analysed for the reporting purpose as:		
Current portion	**53**	44
Non-current portion	**849**	732
Total	**902**	776

Note:

The balance represented the subsidies received from the industrial customers to subsidise the construction cost of the main gas pipelines to the gas provision site and the gas storage. These customers do not restrict the Group to use the assets constructed for the use of other customers but the Group are committed to provide the gas to these customers for a period from 5 to 30 years. Accordingly, the Group has deferred the subsidies received and released to the profit or loss upon the completion of the assets over the shorter of the committed gas provision period and the useful lives of the related assets.

Since 2009, the PRC local governments in certain provinces in the PRC has issued relevant notice to the Group's subsidiaries governing the subsidiaries that an amount of the connection fee received by the Group's subsidiaries from its customers are for the construction cost of the Group's main gas pipelines. The Directors consider that the arrangement indicates that the subsidiaries are required to provide the customer with ongoing access to a supply of gas. As the agreement under such arrangement does not specify a period for provision of the ongoing access to a supply of gas, fees received are deferred and release to the profit or loss over the estimated useful lives of the assets constructed.

22. Share Capital and 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$0.10 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 for a total of 18,680,000 shares in the Company. In 2011, two employees who were the Grantees of the share options were appointed as Directors and two directors who were the Grantees of the share options retired from directorship. Accordingly, the share options granted to the directors and certain employees of the Company has changed to 18,860,000 and 14,630,000 share options, respectively.

After taking into consideration of 15,445,000 share options exercise during the current interim period, the outstanding share options granted to the directors and certain employees of the Company has changed to 9,230,000 and 7,815,000 share options, respectively as at 30 June 2012 (31 December 2011: 17,860,000 and 14,630,000, respectively).

22. Share Capital and Share Options *(continued)*

The following tables disclose details of the Company's share options held by the employees (including directors) and movements in such holdings under the share option scheme during the six months ended 30 June 2012:

					Number of options ('000)			
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2012	Granted during the period	Exercised during the period	Outstanding at 30.6.2012
Tranche 1	14.6.2010	14.6.2010 to 13.12.2010	14.12.2010 to 13.6.2020	HK$16.26	15,745	–	15,445	300
Tranche 2	14.6.2010	14.6.2010 to 13.6.2012	14.6.2012 to 13.6.2020	HK$16.26	16,745	–	–	16,745
					32,490	–	15,445	17,045
Exercisable at the end of the period					15,745	–	–	17,045
Weighted average exercise price					HK$16.26	–	HK$16.26	HK$16.26

During the six months ended 30 June 2012, the Group recognised share-based expenses of RMB21 million (six months ended 30 June 2011: RMB23 million).

On 21 January 2012, 15,445,000 shares were issued at exercise price of HK$16.26 per ordinary share in relation to the exercise of outstanding share options, which was recognised in share capital and share premium of HK$1.5 million (equivalent to approximately RMB1 million) and HK$249.6 million (equivalent to approximately RMB203 million) respectively. These shares rank pari passu with the then existing shares in all respects. There was no further ordinary share issued during the current interim period.

23. Acquisition of Assets Through Acquisition of Subsidiaries

(a) Acquisition of 龍岩民生燃氣發展有限公司 ("Longyan")

On 24 February 2012, the Group acquired 70% of the registered capital of Longyan at a cash consideration of RMB34 million. Longyan is engaged in sales of piped gas. Longyan had 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 million
Non-current assets	
Property, plant and equipment	1
Intangible assets – right of operation	47
Prepaid lease payments	2
Current assets	
Trade and other receivables	2
Current liabilities	
Trade and other payables	(3)
Total net assets	49
Less: Non-controlling interests	(15)
Net assets acquired	34
Total consideration	34
Satisfied by:	
Cash	18
Consideration payables (included in other payables)	16
Total consideration	34
Net cash outflow arising on acquisition:	
Cash consideration paid	18
Less: cash and cash equivalents acquired	–
	18

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

(b) Acquisition of 聚源通投資有限公司 ("Juyuantong")

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 2012, the Group has acquired assets through the acquisitions of the following subsidiary.

On 22 March 2012, the Group acquired 100% of the registered capital of Juyuantong at a cash consideration of approximately RMB173 million. At the time of the acquisition, Juyuantong and its subsidiary had not yet commenced operations other than securing gas supply contracts for the sales of piped gas in Henan province. 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 million
Non-current assets	
Property, plant and equipment	2
Intangible assets – gas contracts	171
Current assets	
Other receivables	1
Current liabilities	
Other payables	(1)
Net assets acquired	173
Total consideration	173
Satisfied by:	
Cash	106
Consideration payables (included in other payables)	67
Total consideration	173
Net cash outflow arising on acquisition:	
Cash consideration paid	106
Less: cash and cash equivalents acquired	–
	106

24. Disposal of a Subsidiary

On 1 December 2011, the Group entered into an equity transfer agreement with an independent third party (the "Seller") to transfer 95% of equity interest in 北京新奧燃氣有限公司 ("Beijingxinao") at a cash consideration of RMB39 million. The disposal was completed on 22 May 2012.

The net assets of Beijingxinao derecognised at the date of disposal were as follows:

	RMB million
Non-current asset	
Property, plant and equipment	31
Intangible assets	6
Current assets	
Cash and cash equivalents	3
Trade and other receivables	10
Inventories	1
Current liabilities	
Trade and other payables	(45)
	6
Gain on disposal of a subsidiary	33
Total consideration satisfied by cash	39
Net cash inflow arising on disposal:	
Cash consideration	39
Cash and cash equivalents disposed of	(3)
	36

25. Deemed Disposal of a Subsidiary

In 2011, a 72.8% owned subsidiary, 江蘇大通管輸天然氣有限公司 (“Jiangsu Datong”), increased its registered capital of approximately RMB30 million by introducing of 大豐市大豐港開發建設有限公司 (“Dafeng”) and 鹽城市城市建設投資集團有限公司 (“Yancheng”) as its equity holders. Dafeng and Yancheng together contributed RMB30 million as additional registered capital of Jiangsu Datong.

On 1 January 2012, upon completion of the contribution from Dafeng and Yancheng, the Group’s equity interest in Jiangsu Datong diluted to 51%. Pursuant to the revised articles of association of Jiangsu Datong, the Group was unable to control Jiangsu Datong because a resolution for the financial and operating activities of Jiangsu Datong can only be passed with a two-third majority.

The net assets of Jiangsu Datong derecognised at the date of the Group lost control over Jiangsu Datong were as follows:

	RMB million
Non-current asset	
Property, plant and equipment	218
Prepaid lease payment	4
Current assets	
Inventories	1
Other receivables	41
Cash and cash equivalents	15
Current liabilities	
Trade and other payables	(86)
Taxation payable	(1)
Non-current liabilities	
Bank loans	(120)
	72
Less: Non-controlling interests	(16)
Net amount derecognised attributable to the equity owners of the Group before capital injection	56
Capital injection by Dafeng and Yancheng	30
Net amount derecognised including capital injection by Dafeng and Yancheng	86

25. Deemed Disposal of a Subsidiary *(continued)*

The loss recognised in profit or loss on loss of control of Jiangsu Datong was calculated as follows:

	RMB million
Fair value of the residual interests in Jiangsu Datong recognised as investment cost of an associate	51
Capital injection by Dafeng and Yancheng	30
	81
Less: Net assets derecognised	(86)
Loss on derecognition of a subsidiary on loss of control to associate	(5)
Cash outflow arising on derecognition:	
Cash and cash equivalents disposed of	(15)

26. Commitments

(a) Capital commitments

	At 30 June 2012 RMB million	At 31 December 2011 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	**114**	124
Capital commitment in respect of investments in associates or jointly controlled entities	**84**	57

(b) Other commitments

As at 30 June 2012, the Group has commitment amounting to RMB30 million (31 December 2011: RMB32 million) in respect of acquisition of land use rights in the PRC.

(c) Pre-conditional commitment

In the announcement dated 12 December 2011 (the “Announcement”), China Petroleum & Chemical Corporation (“Sinopec”) and the Company jointly announced the formation of a consortium and intend to, subject to the satisfaction or waiver (as applicable) of the pre-conditions as set out in the Announcement, make a voluntary conditional cash offer (i) to acquire all of the outstanding shares in the issued share capital of China Gas Holdings Limited (“China Gas”) (other than those shares in China Gas already held by Sinopec or the Company or other parties acting in concert with Sinopec or the Company) at cash consideration of HK$3.50 per share and (ii) to cancel all outstanding share options in China Gas at cash consideration of HK$0.90 to HK$2.79 per share option.

As stated in the Announcement, with respect of the Company, assuming that all the outstanding share options are exercised before the close of the Offer and the share offer is accepted in full, the financial resources required by the Company in order to satisfy the obligations in respect of full acceptance of the Offer amount to approximately HK$9,185 million (equivalent to approximately RMB7,446 million).

Pursuant to the announcement dated 6 August 2012 jointly made by Sinopec and the Company, the Long Stop Date, which is the last date for the offerors to confirm that the pre-conditions to the Offer are satisfied or waiver (as applicable), was extended to 6 September 2012.

27. Related Party Transactions

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

	Six months ended 30 June	
	2012	2011
	RMB million	RMB million
Associates		
– Sales of gas to	**3**	9
– Sales of materials to	**10**	3
– Provision of gas transportation services to	**1**	–
– Purchase of materials from	**1**	1
– Purchase of gas from	**22**	18
Jointly controlled entities		
– Sales of gas to	**203**	143
– Sales of materials to	**50**	44
– Purchase of gas from	**194**	132
– Provision of gas transportation services to	**185**	128
– Loan interest received from	**4**	–
– Loan interest paid to	**4**	–
– Provision of supporting services	**9**	17
– Provision of construction services	**17**	21
Companies controlled by Mr. Wang Yu Suo ("Mr. Wang") a controlling shareholder and director of the Company		
– Sales of gas to	**4**	4
– Provision for engineering construction by	**2**	–
– Provision of energy supporting services by	**3**	–
– Provision of gas connection service to	**2**	1
– Provision for property management services by	**4**	3
– Provision of maritime transportation services by	**6**	8
– Purchase of equipment and supporting service from	**3**	–
– Lease of premises from	**1**	1
– Provision of supporting service by	**10**	10
Non-controlling shareholders of subsidiaries		
– Provision of gas construction service to	**–**	5
– Provision of construction service by	**3**	2
– Lease of premises from	**2**	–
– Lease of land from	**–**	1
– Provision of transportation services by	**1**	1
– Purchase of gas from	**1**	–

27. Related Party Transactions *(continued)*

The Company issued US$750 million senior notes (the "2021 Senior Notes") on 13 May 2011. The terms and conditions of the 2021 Senior Notes require Mr. Wang to retain control over the Company throughout the term of the 2021 Senior Notes failing which the Company would be require to repurchase all outstanding notes at purchase price equal to 101% of their principal amount plus accrued and unpaid interest at such repurchase date.

In addition, Mr. Wang and Ms. Zhao Baoju, spouse of Mr. Wang has provided personal guarantees to the extent of RMB500 million (31 December 2011: RMB2,250 million) to certain banks for banking facilities granted to the Group as at 30 June 2012.

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 RMB95 million (31 December 2011: RMB100 million) granted to the Group. Such banking facilities have not been utilised as at 30 June 2012.

The Group has provided guarantees to associates amounting to RMB45 million (31 December 2011: RMB45 million) and to jointly controlled entities amounting to RMB50 million (31 December 2011: RMB50 million).

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Short-term employee benefits	**4,983**	4,929
Post-employment benefits	**68**	26
Share-based payments	**11,283**	14,031
	16,334	18,986

Disclosure of Interests

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

As at 30 June 2012, 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:

			Interests in shares					
Name of Director	Capacity	Personal interests	Corporate interests	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 2012
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	596,000 (Note 2)	326,095,000 (Note 1)	–	326,691,000	500,000 (Note 2)	327,191,000	30.68%
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	500,000 (Note 2)	327,191,000	30.68%
Mr. Cheung Yip Sang	Beneficial owner	–	–	–	–	1,950,000	1,950,000	0.18%
Mr. Zhao Jinfeng	Beneficial owner	–	–	–	–	1,180,000	1,180,000	0.11%
Mr. Yu Jianchao	Beneficial owner	–	–	–	–	1,800,000	1,800,000	0.17%
Mr. Cheng Chak Ngok	Beneficial owner	–	–	–	–	225,000	225,000	0.02%
Mr. Zhao Shengli	Beneficial owner	–	–	–	–	1,550,000	1,550,000	0.15%
Mr. Wang Dongzhi	Beneficial owner	–	–	–	–	1,225,000	1,225,000	0.11%
Mr. Jin Yongsheng	Beneficial owner	–	–	–	–	200,000	200,000	0.02%
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 ENN Group International Investment Limited ("EGII"), 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 and underlying shares held by Mr. Wang, and vice versa.

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 2012, the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

Directors' rights to acquire shares

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

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2012	Number of options exercised during the Period (Note 2)	Number of shares subject to outstanding options as at 30 June 2012 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 30 June 2012 (Aggregate)
Mr. Wang	14.06.2010	14.12.2010–14.06.2020	16.26	400,000 (Note 3)	(400,000)	400,000	0.04%
	14.06.2010	14.06.2012–14.06.2020	16.26	400,000 (Note 3)	–		
Ms. Zhao	14.06.2010	14.12.2010–14.06.2020	16.26	100,000 (Note 3)	(100,000)	100,000	0.01%
	14.06.2010	14.06.2012–14.06.2020	16.26	100,000 (Note 3)	–		
Mr. Cheung Yip Sang	14.06.2010	14.12.2010–14.06.2020	16.26	1,950,000	(1,950,000)	1,950,000	0.18%
	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	(1,180,000)	1,180,000	0.11%
	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	(1,800,000)	1,800,000	0.17%
	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	(225,000)	225,000	0.02%
	14.06.2010	14.06.2012–14.06.2020	16.26	225,000	–		

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2012	Number of options exercised during the Period (Note 2)	Number of shares subject to outstanding options as at 30 June 2012 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 30 June 2012 (Aggregate)
Mr. Zhao Shengli	14.06.2010	14.12.2010–14.06.2020	16.26	1,550,000	(1,550,000)	1,550,000	0.15%
	14.06.2010	14.06.2012–14.06.2020	16.26	1,550,000	–		
Mr. Wang Dongzhi	14.06.2010	14.12.2010–14.06.2020	16.26	1,225,000	(1,225,000)	1,225,000	0.11%
	14.06.2010	14.06.2012–14.06.2020	16.26	1,225,000	–		
Mr. Jin Yongsheng	14.06.2010	14.12.2010–14.06.2020	16.26	200,000	(200,000)	200,000	0.02%
	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				17,860,000	(8,630,000)	9,230,000	

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. "Period" refers to the period from 1 January 2012 to 30 June 2012.
3. Ms. Zhao, being the spouse of Mr. Wang, will be deemed to be interested in these share options held by Mr. Wang, and vice versa.

Save as disclosed above, at no time during the period from 1 January 2012 to 30 June 2012 (the "Period") was the Company or its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

Substantial Shareholders

As at 30 June 2012, 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	Personal interests	Interests in shares Corporate interests	Family interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares (Note 3)	Approximate percentage of the Company's total issued share capital as at 30 June 2012
Mr. Wang	Beneficial owner and interest of controlled corporation	596,000 (Note 2)	326,095,000 (Note 1)	–	326,691,000	500,000 (Note 2)	327,191,000 (L)	30.68%
Ms. Zhao	Interest of controlled corporation and interest of spouse	–	326,095,000 (Note 1)	596,000 (Note 2)	326,691,000	500,000 (Note 2)	327,191,000 (L)	30.68%
EGII	Beneficial owner	–	326,095,000 (Note 1) (Note 4)	–	326,095,000	–	326,095,000 (L)	30.57%
Capital Research and Management Company	Investment manager	–	128,156,700	–	128,156,700	–	128,156,700 (L)	12.02%
Commonwealth Bank of Australia	Interest of controlled corporation	–	95,858,000	–	95,858,000	–	95,858,000 (L)	8.99%
Nomura Holdings, Inc.	Investment manager, interest of controlled corporation and custodian corporation/ approved lending agent	–	67,757,312 (Note 4)	–	67,757,312	–	67,757,312 (L)	6.35%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent	–	64,021,233 (L) (including 57,339,640 (P)) 589,822 (S)	–	64,021,233 (L) (including 57,339,640 (P)) 589,822 (S)	–	64,021,233 (L) (including 57,339,640 (P)) 589,822 (S)	6.00% (L) (including 5.38% (P)) 0.06% (S)

Notes:

1. The three references to 326,095,000 shares relate to the same block of shares. Such shares are held by EGII which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares and underlying shares held by Mr. Wang, and vice versa.
3. (L) represents Long Position; (S) represents Short Position; (P) represents Lending Pool.
4. Included in the 67,757,312 shares held by Nomura Holdings, Inc. ("Nomura") is 65,000,000 shares beneficially owned by EGII which were pledged to Nomura to secure a term loan facility.

Save as disclosed above, as at 30 June 2012, 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 2012, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Share Option Scheme

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

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

Grantee	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2012	Number of options exercised during the Period (Note 2)	Number of shares subject to outstanding options as at 30 June 2012 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 30 June 2012 (Aggregate)	Weighted average closing price of shares immediately before the date of exercise of options (HK$)
Directors	14.06.2010	14.12.2010–14.06.2020	16.26	8,930,000	(8,630,000)	9,230,000	0.87%	22.50
	14.06.2010	14.06.2012–14.06.2020	16.26	8,930,000	–			
Employees	14.06.2010	14.12.2010–14.06.2020	16.26	6,815,000	(6,815,000)	7,815,000	0.73%	22.50
	14.06.2010	14.06.2012–14.06.2020	16.26	7,815,000	–			
Total				32,490,000	(15,445,000)	17,045,000	1.60%	–

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. "Period" refers to the period from 1 January 2012 to 30 June 2012.

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

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

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

Purchase, Sale Or Redemption of Listed Securities

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

Audit Committee

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control (including financial control, operational control, compliance control, risk management function and the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, as well as their training programmes and budget) and financial reporting matters. 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 27 August 2012 to review the unaudited interim results and interim financial report for the six months ended 30 June 2012. 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 2012 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 (effective until 31 March 2012) and the Corporate Governance Code (newly effective from 1 April 2012) (the "Code") as contained in Appendix 14 to the Listing Rules throughout the Period except deviation from Code Provision A.6.7 and E.1.2. Mr. Wang Yusuo (Chairman of the Board), Ms. Zhao Baoju (Non-executive Director) and Mr. Wang Guangtian (Independent Non-executive Director) were unable to attend the annual general meeting of the Company held on 26 June 2012 due to business trips. 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

On 13 May 2011, the Company issued 10-year bonds and the terms and conditions of the bonds require Mr. Wang Yusuo, the controlling shareholder of the Company, to retain at least 25% of the total issued share capital of the Company throughout the term of the bonds. The total amount of the loan involved is US$750 million (equivalent to RMB4,863 million).

Interests in Competitors

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

By order of the Board
WANG Yusuo
Chairman

Hong Kong, 27 August 2012

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