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華潤燃氣控股有限公司
China Resources Gas Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1193)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

CR Gas recorded significant improvements in interim results with increases of 15% in gross gas sales volume and 26.0% in net profit attributable to equity shareholders to HK\$1,957 million. Proposed interim dividend per share to increase by 50% to HK\$0.15.

	1st Half	1st Half	Increase/ (decrease)
	2016	2015	
Turnover (HK\$ million)	15,413	15,598	(1)%
Profit attributable to equity shareholders (HK\$ million)	1,957	1,557	26%
Basic earnings per share (HK cents)	90	72	25%
Proposed dividend per share (HK cents)	15	10	50%
Gross gas sales volume (million m³)	8,273	7,176	15%
Accumulated total connected customers (million)	24.98	21.92	14%

The board of directors (the “Board”) of China Resources Gas Group Limited (the “Company” or “CR Gas”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2016 with comparative figures for 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

	NOTES	Six months ended 30th June,	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited and restated)
Revenue	4	15,412,818	15,597,549
Cost of sales		(9,941,776)	(10,947,377)
Gross profit		5,471,042	4,650,172
Other income	5	266,596	217,416
Other (losses) gains	6	(8,036)	14,190
Selling and distribution expenses		(1,576,811)	(1,456,560)
Administrative expenses		(1,000,714)	(990,307)
Finance costs		(237,513)	(275,880)
Share of results of joint ventures		388,548	417,130
Share of results of associates		56,307	56,884
Profit before taxation		3,359,419	2,633,045
Taxation	7	(754,193)	(630,266)
Profit for the period	8	2,605,226	2,002,779
Other comprehensive (expense) income for the period			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Exchange differences arising on translation to presentation currency		(1,020,355)	17,948
Total comprehensive income for the period		1,584,871	2,020,727
Profit for the period attributable to:			
Owners of the Company		1,956,984	1,557,004
Non-controlling interests		648,242	445,775
		2,605,226	2,002,779
Total comprehensive income for the period attributable to:			
Owners of the Company		1,195,597	1,572,193
Non-controlling interests		389,274	448,534
		1,584,871	2,020,727
		HK\$ (unaudited)	HK\$ (unaudited)
Earnings per share – Basic	10	0.90	0.72

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30TH JUNE, 2016

	<i>NOTES</i>	At 30th June, 2016 <i>HK\$'000</i> (unaudited)	At 31st December, 2015 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>11</i>	23,894,918	22,717,164
Prepaid lease payments		1,515,107	1,455,967
Investment properties		50,806	39,855
Interests in joint ventures		9,595,412	9,993,948
Interests in associates		1,965,433	1,952,824
Available-for-sale investments		62,112	59,805
Goodwill		662,806	676,169
Operating rights		1,265,286	1,298,374
Deferred tax assets		224,851	190,323
Deposits for operating rights		19,084	20,641
Deposits for prepaid lease payments		81,340	65,460
Deposits for property, plant and equipment		329,858	344,107
Deposits for investments		716,649	731,098
		40,383,662	39,545,735
Current assets			
Inventories		824,841	570,516
Trade and other receivables	<i>12</i>	7,326,315	7,368,988
Amounts due from customers for contract work		2,260,716	1,534,776
Prepaid lease payments		76,664	74,683
Pledged bank deposits		72,901	50,702
Other deposits		4,914,168	–
Bank balances and cash		6,313,696	10,750,872
		21,789,301	20,350,537

		At 30th June, 2016 <i>HK\$'000</i> (unaudited)	At 31st December, 2015 <i>HK\$'000</i>
Current liabilities			
Trade and other payables	<i>13</i>	10,525,668	12,441,037
Amounts due to customers for contract work		11,252,031	8,168,338
Government grants		26,260	24,490
Bank and other borrowings		5,716,890	4,219,798
Taxation payable		353,228	569,771
		27,874,077	25,423,434
Net current liabilities		(6,084,776)	(5,072,897)
		34,298,886	34,472,838
Capital and reserves			
Share capital		222,401	222,401
Reserves		17,482,087	16,786,958
Equity attributable to owners of the Company		17,704,488	17,009,359
Non-controlling interests		6,181,916	5,477,647
		23,886,404	22,487,006
Non-current liabilities			
Government grants		122,127	104,489
Bank and other borrowings		3,377,357	4,970,773
Senior notes		5,721,603	5,708,620
Other long-term liabilities		183,237	189,772
Deferred tax liabilities		1,008,158	1,012,178
		10,412,482	11,985,832
		34,298,886	34,472,838

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

1. GENERAL

The Company is a listed public company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s intermediate parent company is China Resources (Holdings) Company Limited, a company incorporated in Hong Kong and its ultimate holding company is China Resources National Corp., a company established in the PRC which is owned and controlled by the PRC government.

The Group is principally engaged in the sale and distribution of gas fuel and related products, gas connection operation, sale of gas appliances and design and construction services in the PRC.

The interim results of the Group are unaudited and have been reviewed by the Company’s Audit and Risk Management Committee.

2. BASIS OF PREPARATION

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

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group’s current liabilities exceeded its current assets by approximately HK\$6,084,776,000, and the Group has capital commitment of HK\$1,520,109,000 as at 30th June, 2016. As at 30th June, 2016, the Group has bank and other borrowings totalling HK\$9,094,247,000 of which HK\$5,716,890,000 was classified as current liabilities. The directors of the Company are of the opinion that there are good track records and relationship with banks which would enhance the Group’s ability on renewing the borrowing facilities.

The directors of the Company are of the opinion that, taking into account of the internally generated funds of the Group and the other factors described above, the Group has sufficient working capital for its present requirements for the next twelve months from 30th June, 2016. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

The Group has retrospectively adjusted comparative figures on the condensed consolidated statement of profit or loss and other comprehensive income in connection with the adjustments to the provisional fair values of the assets and liabilities of 長興華潤燃氣有限公司 (“Changxing CR Gas”) acquired during the year ended 31st December, 2014 to reflect the fair value adjustments made upon finalisation of the accounting of that subsidiary in the second half of 2015. In addition, certain comparative figures on the condensed consolidated statement of profit or loss and other comprehensive income have been reclassified based on their nature to conform with the presentation in the current period’s condensed consolidated financial statements.

- (a) The effects of those restatements described above on the condensed consolidated statement of profit or loss and other comprehensive income during the six months ended 30th June, 2015 are as follows:

	Six months ended 30th June, 2015 <i>HK\$'000</i> (previously Stated)	Effect of the finalisation of accounting for acquisition of Changxing CR Gas <i>HK\$'000</i>	Reclassifications <i>HK\$'000</i>	Six months ended 30th June, 2015 <i>HK\$'000</i> (restated)
Turnover	15,090,569	–	506,980	15,597,549
Cost of sales	(10,557,292)	263	(390,348)	(10,947,377)
Gross profit	4,533,277	263	116,632	4,650,172
Other income	357,773	–	(140,357)	217,416
Other gains	–	–	14,190	14,190
Selling and distribution expenses	(1,456,560)	–	–	(1,456,560)
Administrative expenses	(990,514)	(9,328)	9,535	(990,307)
Finance costs	(275,880)	–	–	(275,880)
Share of results of joint ventures	417,130	–	–	417,130
Share of results of associates	56,884	–	–	56,884
Profit before taxation	2,642,110	(9,065)	–	2,633,045
Taxation	(632,533)	2,267	–	(630,266)
Profit for the period	2,009,577	(6,798)	–	2,002,779
<i>Items that will not be subsequently reclassified to profit or loss</i>				
Exchange differences arising on translation to presentation currency	17,948	–	–	17,948
Total comprehensive income for the period	<u>2,027,525</u>	<u>(6,798)</u>	<u>–</u>	<u>2,020,727</u>
Profit for the period attributable to:				
Owners of the Company	1,563,802	(6,798)	–	1,557,004
Non-controlling interests	445,775	–	–	445,775
	<u>2,009,577</u>	<u>(6,798)</u>	<u>–</u>	<u>2,002,779</u>
Total comprehensive income for the period attributable to:				
Owners of the Company	1,578,991	(6,798)	–	1,572,193
Non-controlling interests	448,534	–	–	448,534
	<u>2,027,525</u>	<u>(6,798)</u>	<u>–</u>	<u>2,020,727</u>

- (b) The impact of the finalisation of accounting for acquisition of Changxing CR Gas on the condensed consolidated statement of financial position of the Group as at 1st January, 2015 has been disclosed in the annual report of the Company for the year ended 31st December, 2015.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2016 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December, 2015.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

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

4. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

The Group's operating segments under HKFRS 8 are as follows:

- (i) Sale and distribution of gas fuel and related products – sale of natural gas and to a much lesser extent, liquefied petroleum gas for residential, commercial and industrial use
- (ii) Gas connection – construction of gas pipelines networks under gas connection contracts
- (iii) Sale of gas appliances – sale of gas appliances and related products
- (iv) Design and construction services – design, construction, consultancy and management for gas connection projects

During the six months ended 30th June, 2016, the chief operating decision maker has reassessed the Group's businesses and restructured its businesses of (a) sale and distribution of gas fuel and related products and (b) gas connection into businesses of (i) sale and distribution of gas fuel and related products; (ii) gas connection; (iii) sale of gas appliances, and (iv) design and construction services. This new segment reporting is used by management to analyse its business performance. The comparative information of the above has been restated to conform with the current period's presentation.

Segment results represent the profit before taxation earned by each segment, excluding rental income, sundry income, interest income, finance costs, central administration costs, release from prepaid lease payments and directors' salaries. This is the measure reported to the executive directors of the Company for the purpose of resource allocation and assessment of segment performance.

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

Six months ended 30th June, 2016

	Sale and distribution of gas fuel and related products <i>HK\$'000</i>	Gas connection <i>HK\$'000</i>	Sale of gas appliances <i>HK\$'000</i>	Design and construction services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue – external customers	<u>11,821,908</u>	<u>3,066,743</u>	<u>110,382</u>	<u>413,785</u>	<u>15,412,818</u>
Segment results	<u>1,786,682</u>	<u>1,465,382</u>	<u>12,361</u>	<u>57,278</u>	3,321,703
Share of results of joint ventures					388,548
Share of results of associates					56,307
Unallocated income					197,992
Unallocated expenses					(367,618)
Finance costs					(237,513)
Profit before taxation					<u>3,359,419</u>

Six months ended 30th June, 2015 (restated)

	Sale and distribution of gas fuel and related products <i>HK\$'000</i>	Gas connection <i>HK\$'000</i>	Sale of gas appliances <i>HK\$'000</i>	Design and construction services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue – external customers	<u>12,506,330</u>	<u>2,551,705</u>	<u>69,526</u>	<u>469,988</u>	<u>15,597,549</u>
Segment results	<u>1,506,706</u>	<u>1,241,260</u>	<u>7,029</u>	<u>42,756</u>	2,797,751
Share of results of joint ventures					417,130
Share of results of associates					56,884
Unallocated income					164,732
Unallocated expenses					(527,572)
Finance costs					(275,880)
Profit before taxation					<u>2,633,045</u>

The following is an analysis of the Group's segment assets and segment liabilities by operating and reportable segments:

	At 30th June, 2016 HK\$'000	At 31st December, 2015 HK\$'000 (restated)
Segment assets:		
Sale and distribution of gas fuel and related products	29,963,377	29,225,826
Gas connection	4,843,891	4,214,970
Sale of gas appliances	92,985	88,153
Design and construction services	2,026,209	1,247,357
	<hr/>	<hr/>
	36,926,462	34,776,306
Interests in joint ventures	9,595,412	9,993,948
Interests in associates	1,965,433	1,952,824
Deferred tax assets	224,851	190,323
Unallocated corporate assets (<i>Note a</i>)	13,460,805	12,982,871
	<hr/>	<hr/>
	62,172,963	59,896,272
	<hr/> <hr/>	<hr/> <hr/>
	At 30th June, 2016 HK\$'000	At 31st December, 2015 HK\$'000 (restated)
Segment liabilities:		
Sale and distribution of gas fuel and related products	3,600,086	4,391,866
Gas connection	13,356,433	11,067,025
Sale of gas appliances	60,156	38,859
Design and construction services	1,913,351	1,544,908
	<hr/>	<hr/>
	18,930,026	17,042,658
Taxation payable	353,228	569,771
Deferred tax liabilities	1,008,158	1,012,178
Unallocated corporate liabilities (<i>Note b</i>)	17,995,147	18,784,659
	<hr/>	<hr/>
	38,286,559	37,409,266
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Notes:

- a. Unallocated corporate assets represent goodwill arising on acquisition of subsidiaries which are engaged in sale and distribution of gas fuel and related products, gas connection, sale of gas appliances and design and construction services, investment properties, deposits for investments, available-for-sale investments, other receivables, pledged bank deposits, other deposits and bank balances and cash.
- b. Unallocated corporate liabilities represent other payables, bank and other borrowings, senior notes and other long-term liabilities (excluding payable for acquisition of operating rights). Bank and other borrowings and senior notes are classified as unallocated corporate liabilities because they are managed centrally by the treasury function of the Group.

5. OTHER INCOME

	Six months ended 30th June,	
	2016	2015
	HK\$'000	HK\$'000
Included in other income are:		
Interest income on bank and other deposits	<u>108,210</u>	<u>95,141</u>

6. OTHER (LOSSES) GAINS

	Six months ended 30th June,	
	2016	2015
	HK\$'000	HK\$'000
Exchange (loss) gain	(4,706)	16,520
Loss on disposal of property, plant and equipment	(3,330)	(2,279)
Loss on disposal of prepaid lease payments	—	(51)
	<u>(8,036)</u>	<u>14,190</u>

7. TAXATION

	Six months ended 30th June,	
	2016	2015
	HK\$'000	HK\$'000
Current tax		
PRC Enterprise Income Tax	757,567	622,874
Deferred taxation (credit) charge	<u>(3,374)</u>	<u>7,392</u>
	<u>754,193</u>	<u>630,266</u>

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the six months ended 30th June, 2016. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Company and subsidiaries operating in Hong Kong had no assessable profits for both periods.

Profits tax arising in the PRC is calculated based on the applicable tax rates on assessable profits.

8. PROFIT FOR THE PERIOD

Six months ended 30th June,
2016 2015
HK\$'000 **HK\$'000**

Profit for the period has been arrived at after charging:

Depreciation of property, plant and equipment	529,697	514,314
Depreciation of investment properties	1,312	821
Amortisation of operating rights (included in administrative expenses)	32,262	17,171
Release of prepaid lease payments	38,332	25,144
	<u>529,697</u>	<u>514,314</u>

9. DIVIDENDS

During the six months ended 30th June, 2016, a dividend of 23 HK cents per share (six months ended 30th June, 2015: 20 HK cents per share), totalling HK\$500,468,000 (2015: HK\$434,928,000), was paid by the Company to its shareholders as the final dividend for the year ended 31st December, 2015 (2015: 31st December, 2014).

On 16th August, 2016, the directors declared an interim dividend in respect of the current interim period of 15 HK cents per share amounting to HK\$333,601,931 in aggregate (six months ended 30th June, 2015: 10 HK cents per share) that will be paid to shareholders whose names appear on the register of members of the Company on 19th September, 2016. This dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company of HK\$1,956,984,000 (six months ended 30th June, 2015: HK\$1,557,004,000 (restated)) and on 2,175,949,487 (six months ended 30th June, 2015: 2,174,639,487) weighted average number of shares in issue less shares held for incentive award scheme for the six months ended 30th June, 2016.

No diluted earnings per share has been presented as there were no potential ordinary shares in issue in both periods.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th June, 2016, the Group incurred a total costs of HK\$413,061,000 and HK\$747,608,000 (six months ended 30th June, 2015: HK\$417,311,000 and HK\$729,187,000) on additions of gas pipelines and construction in progress, respectively.

12. TRADE AND OTHER RECEIVABLES

The Group generally allows credit periods ranging from 30 to 90 days to its trade customers, which may be extended to 180 days for selected customers depending on the trade volume and settlement terms. The following is an analysis of trade receivables by age, net of allowance for doubtful debts, and is presented based on the invoice date, which approximated the revenue recognition date.

	At 30th June, 2016 <i>HK\$'000</i>	At 31st December, 2015 <i>HK\$'000</i>
0 – 90 days	3,475,554	3,376,657
91 – 180 days	626,220	377,684
180 – 365 days	305,024	221,288
Over 365 days	79,731	40,022
	<u>4,486,529</u>	<u>4,015,651</u>

Included in other receivables as at 30th June, 2016 are deposits and prepayments of HK\$998,578,000 and HK\$1,355,167,000 (31st December, 2015: HK\$947,564,000 and HK\$1,334,404,000), respectively.

13. TRADE AND OTHER PAYABLES

The aged analysis of trade payables is presented based on the invoice date at the end of the reporting period as follows:

	At 30th June, 2016 <i>HK\$'000</i>	At 31st December, 2015 <i>HK\$'000</i>
0 – 90 days	2,542,429	2,872,775
91 – 180 days	645,237	489,573
180 – 365 days	927,643	741,946
Over 365 days	661,206	588,141
	<u>4,776,515</u>	<u>4,692,435</u>

The average credit period on purchases of goods ranges from 7 to 180 days.

Included in other payables as at 30th June, 2016 are receipts in advance from customers of HK\$2,424,533,000 (31st December, 2015: HK\$3,400,322,000).

REVIEW OF INTERIM RESULTS

The interim results for the six months ended 30th June, 2016 are unaudited and have been reviewed by the Company's auditor and the Company's Audit and Risk Management Committee. The auditor's report on review of condensed consolidated financial statements is contained in the interim report to be dispatched to shareholders.

RESULTS AND BUSINESS REVIEW

Results

The downstream city gas industry in China experienced a challenging year in 2015 with gas demand softening due to the deceleration of the Chinese economic growth. This coupled with the significant drop in price of oil and related products since the last quarter of 2014, resulted in reduction of price competitiveness of natural gas and caused the demand for natural gas to slow down. This is aggravated by the slow down in industrial activity and hence demand for natural gas by industrial users, as reflected by the relatively weak Chinese economy which registered GDP growth rate of 6.9% in 2015. The overall gas volume demand growth in China in 2015 was 5.7%, same level as 5.6% registered in 2014.

To stimulate the demand for natural gas by industrial users, the ceiling city gate gas price for industrial users was reduced by RMB0.70/m³ or some 28% on 20th November, 2015. Since then, the demand for gas in China has rebounded. The natural gas demand growth rate in China for the first 6 months of 2016 has recovered to 9.8%, even though the GDP growth rate was flat at 6.7% for the same period.

For the 6 months to 30th June, 2016, CR Gas registered a gross gas volume of 8,273 million cubic meters, 15.3% increase over the previous corresponding period. This is better than the industry's gas demand growth rate of 9.8% for the same period. However, due to gas price reduction to pass on the city gate price cut since November 2015, as well as the reduction of RMB exchange rate used in translating results into Hong Kong dollars for the two comparative periods, the turnover of CR Gas registered a decrease of 1% from HK\$15.60 billion to HK\$15.41 billion.

Nevertheless, the Group recorded profit attributable to the Company's equity holders of HK\$1,957 million, an increase of 26% over the HK\$1,557 million of the previous corresponding period.

The significant increase in profit was mainly due to the increase of gross margin from 29.8% to 35.5%, which was driven by (i) increase in gas sales margin as a result of implementation of residential step-pricing and (ii) increase in connection income due to increase of new residential household connections from 1.02 million in 1H 2015 to 1.19 million in 1H 2016.

Increase in other income by HK\$49 million is mainly due to increase in interest income and repair and services income.

Other losses of HK\$8 million compared with other gain of HK\$14 million in 1H 2015 were mainly due to exchange losses on repayment of Hong Kong Dollar denominated loans compared to exchange gain of HK\$17 million in 1H 2015.

Selling and distribution expenses and administration expenses increased by HK\$131 million mainly due to inclusion of such expenses of Zhenjiang city gas operation as a result of its consolidation as a key subsidiary during this period.

Finance expense reduced by HK\$38 million mainly due to conversion of some Hong Kong Dollar denominated term loans into lower interest revolving loans, pending subsequent conversion into RMB denominated loans over the next 2 years.

Share of results of joint ventures reduced by HK\$29 million mainly due to losses suffered by Tianjin project compared to slight profit in last corresponding period.

Share of results of associates, which is mainly contributed by Chongqing project, is stable.

Increase in taxation expenses is in line with the increase in profit before taxation.

Continuous Enhancement of Operational Efficiencies

The Group is intensively executing its company-wide “Lean Management” and “Bench-marking for Efficiency” measures to enhance its operational and financial efficiencies continuously. It constantly seeks for improvements in various areas such as speed of signing up new customers, customer service, project tendering, safety standards, gas leakages control, centralised cash management, centralised procurement, tax management, etc. The ongoing organic enhancement of existing city gas distribution operations and the external acquisition of new city gas businesses will continue to deliver stable cash flow as well as excellent growth opportunity for the enhancement of the Company’s shareholders’ value in the foreseeable future.

PROSPECTS AND OUTLOOK

On 28th February, 2015, The National Development and Reform Committee (“NDRC”) announced that with effect from 1st April, 2015, the ceiling city gate gas price for existing volume will increase by RMB0.04/m³ and that for incremental volume will reduce by RMB0.44/m³. This effectively merges the gas prices of existing and incremental gas volumes resulting in an overall net reduction in blended price of city gate gas. On 19th November, 2015, NDRC announced that with effect from 20th November, 2015, the ceiling city gate gas price for industrial users is reduced by RMB0.70/m³. These unprecedented two times reduction of city gate price within a year since gas price reform started in 2011, signals the unwavering objective of NDRC to support the development of Chinese gas industry to ultimately achieve market based gas price for the PRC. This measure to enhance the price competitiveness of gas is expected to continue and will ensure that the NDRC’s target of gas comprising about 10% or more of the total energy sources in China by 2020 is achievable. With the coming availability of abundant cheaper gas globally and in China within the next 3 to 5 years, such market driven approach of gas pricing will spike the continuous demand for gas and will be extremely positive for the entire downstream city gas industry.

To rationalise and alleviate the burden on industrial customers in cross subsidising residential customers, in March 2014, the NDRC announced that a three-tiered progressive gas tariff system for the residential sector will be implemented nationwide. By the end of June 2016, the Group has adopted step-pricing system to 67% of the Group’s affected residential gas volume. This step-pricing mechanism, once fully implemented throughout CR Gas’s projects by the end of 2016, could lead to a further upside in residential dollar-margin.

As the Group’s portfolio includes some of the biggest cities in China, the Group has the most number of residential and commercial customers in the industry totalling some 25 million. These two categories accounts for 28.8% and 24.0% of the Group’s total gas sales volume. This will position the Group to tap into the huge potential increase in consumption with the shifting of the Chinese economy to consumption-led model over the next few years.

The above factors augur well for the natural gas industry in China and offer significant opportunity for the continuous growth of the Group in the foreseeable future.

The Group's key business units in Jiangsu, Sichuan and Henan Provinces have continued to register good operating performances. Financial performance and profit contribution from Chongqing Project is expected to improve steadily going forward.

The Group has embarked on various operational enhancement measures to boost the quality of its organic growth, starting with "Lean Management" practice in 2012 and "Bench-marking for Efficiency" measure in 2013. The Group continues in 2016 to focus intensely on various Bench-marking measures to improve operation efficiencies relentlessly.

Leveraging on the above mentioned factors, the Group will continue to grow steadily during the second half of the year and beyond. The Group will ride on the continuing favourable industry fundamentals and its experienced management team with strong execution record to scale new heights via quality organic growth and external acquisitions.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

Investments

As at 30th June, 2016, the Group made new investments of HK\$171 million in 8 city gas projects in Fujian, Guangdong, Shandong, Guangxi, Jiangsu Provinces and Shanghai. Five of these projects are wholly owned by the Group while the rest are joint ventures with majority controls.

A further 14 projects of HK\$384 million have been announced or approved by the Board up to 16th August, 2016.

The acquisitions will add to the Company's existing footprint in these provinces and create further cluster synergy with existing city gas projects in terms of centralized procurement, pipeline design & construction and management efficiency.

The Group has also spent HK\$1.16 billion during the period on pipeline construction and related facilities for expansion of gas operation.

INTERIM DIVIDEND

The Directors have resolved to declare the payment of an interim dividend of 15 HK cents per share for the six months ended 30th June, 2016 (six months ended 30th June, 2015: 10 HK cents per share), payable on 26th October, 2016 to shareholders whose names appear on the register of members of the Company on 19th September, 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12th September, 2016 to 19th September, 2016, both days inclusive. In order to qualify for the proposed interim dividend payment, completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 9th September, 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30th June, 2016.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the mandatory provisions of the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules. In line with the mandatory provisions of the Code, the Company has adopted a Corporate Governance Handbook (the "Handbook") on 23rd December, 2005 and subsequently updated it in 2008, 2009, 2010, 2012, 2013, 2014, 2015 and 2016. The contents of the Handbook include, among others, directors' duties, model code for directors' transactions in securities, model code for securities transaction by relevant employees, the functions and terms of reference of the Audit and Risk Management, Remuneration, Nomination, Investment and Corporate Governance Committees, disclosure of information, communication with shareholders, procedures for shareholders to propose a person for election as a director and board diversity policy. All the mandatory provisions under the Code have been adopted and reflected in the Handbook. During the six months ended 30th June, 2016, the Company was in compliance with the mandatory provisions of the Code except for the deviation from code provisions D.1.4 and E.1.2 which is explained as follows:

Under the code provision D.1.4, the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment. The Company did not have formal letters of appointment for Directors. However, the Directors are subject to retirement by rotation at least once every three years in accordance with the Bye-Laws. In addition, the Directors are required to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as directors of the Company. Besides, the Directors are required to comply with the requirements under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

Under the code provision E.1.2, the Chairman of the Board should attend the annual general meeting. Due to other business commitment, the Chairman of the Board did not attend the annual general meeting of the Company held on 2nd June, 2016.

Save as those mentioned above and in the opinion of the Directors, the Company has met the code provisions set out in the Code during the six months ended 30th June, 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the period.

INTERIM REPORT

The 2016 Interim Report will be dispatched to shareholders and published on the Stock Exchange’s designated website (www.hkexnews.hk) and the Company’s website (www.crgas.com.hk) in due course.

On behalf of the Board
CHINA RESOURCES GAS GROUP LIMITED
WANG Chuandong
Chairman

Hong Kong, 16th August, 2016

As at the date of this announcement, the directors of the Company are Mr. Wang Chuandong, Mr. Shi Shanbo, Mr. Ge Bin and Mr. Ong Thiam Kin, being Executive Directors; Mr. Du Wenmin, Mr. Wei Bin, Mr. Chen Ying and Mr. Wang Yan, being Non-executive Directors; and Mr. Wong Tak Shing, Ms. Yu Jian, Mr. Yu Hon To, David and Mr. Qin Chaokui, being Independent Non-executive Directors.