CHINAGAS 中國燃氣

[For Immediate Release]

CHINA GAS ANNOUNCES FY2016/17 INTERIM RESULTS

SATISFACTORY OPERATIONAL AND FINANCIAL PERFORMANCE
TOTAL NUMBER OF CITY GAS PROJECTS INCREASES TO 311
NATURAL GAS SALES VOLUME CONTRIBUTED BY CITY GAS PROJECTS RECORDS ACCELERATING GROWTH BY 11.1%
SUPPORTED BY STRONG DEMAND OF LPG, LPG SALES VOLUME INCREASES 25.7% YEAR-ON-YEAR TO 1,717,887 TONNES

- **Piped natural gas sales volume increased 8.2% to 4.73 billion cubic meters**
- **Completed connections for 1,138,408 new residential households, 547 industrial users and 12,007 commercial users, representing an increase of 11%, 38.1% and 110.9% respectively**
- **Value-added services recorded an exponential growth with gross profit of HK$172,128,000, registering a 86.0% increase over the same period last year**
- **Solid Financial Position with diversified financing channels**
  - **Issued Renminbi bonds and established the RMB10 billion China Insurance Investment China Gas (Shenzhen) Clean Energy Development Fund L.P. with China Insurance Investment Fund L.P.**
  - **Cash balance of HK$4,713,023,000, maintained at a healthy level**
  - **Reacted quickly to the change in Renminbi exchange rate policy, foreign currency debts/total debts of the Group dropped to 6%**

Financial Highlights

	Six Months Ended 30 September		
	2016	2015	**Changes**
	HK$'000	HK$'000	
Revenue	**13,180,874**	14,150,224	**-6.9%**
Sales of piped gas	**5,677,109**	6,149,368	**-7.7%**
Connection fees	**2,673,708**	2,517,638	**+6.2%**
Sales of LPG	**4,830,057**	5,483,218	**-11.9%**
Gross profit	**3,671,318**	3,539,637	**+3.7%**
Profit for the period	**1,956,061**	1,543,727	**+26.7%**
Profit attributable to the owners of the Company	**1,691,788**	1,304,132	**+29.7%**
Basic earnings per share (HK cents)	**34.45**	26.15	**+31.7%**
Interim dividend per share (HK cents)	**5**	5	**-**
	30 September 2016 HK$'000	31 March 2016 HK$'000	**Changes**
Total assets	**55,272,135**	53,532,891	**+3.3%**
Equity attributable to the owners of the Company	**18,399,682**	17,852,562	**+3.1%**
Cash balance	**4,713,023**	5,772,495	**-18.4%**

(Hong Kong – 29 November 2016) China's leading piped-gas operator, **China Gas Holdings Limited** ("China Gas" or the "Group;" stock code: 384) has announced its interim results for the six months ended 30 September 2016. Despite the discouraging backdrop of the complicated international political and economic environment as well as the slowdown in China's economic growth, the Group has actively responded to the market changes by strengthening its corporate governance and safe operation, and making strenuous efforts in building a new ecosystem for China Gas's 4G (PNG, CNG, LNG and LPG) energy network development, which enabled the Company to record satisfactory operational and financial performance.

During the period, the Group's two major businesses, natural gas and liquefied petroleum gas (LPG), achieved expected growth. The sales volume of LPG recorded an increase of 25.7% year-on-year; yet due to the continuous weakness of international oil prices during the period, LPG procurement costs and selling price dropped significantly compared to the same period last year, hence the revenue of LPG business dropped 11.9%. Besides, natural gas sales volume (including city gas projects and wholesale business) has recorded 8.2% growth. In order to stimulate the demand of natural gas, the National Development and Reform Commission ("NDRC") cut the natural gas price by RMB0.7 per cubic meter, with effective from 20 November 2015. This pushed down the natural gas procurement and selling prices, hence the Group's revenue of natural gas business decreased by 7.7% despite its natural gas sales volume registered a 8.2% increase. Affected by the abovementioned changes in natural gas and LPG prices, the Group's total consolidated revenue decreased by 6.9% to HK$13,180,874,000. During the period, the Group's gross profit grew by 3.7% to HK$3,671,318,000. Profit attributable to owners of the Company increased by 29.7% to HK$1,691,788,000. Basic earnings per share rose 31.7% to HK34.45 cents.

The Board resolved in favour of the payment of an interim dividend of HK5 cents per share (2015/16 interim: HK5 cents)**.**

<u>Piped Gas</u>

During the Period, the Group secured 6 new city gas projects, located in Jilin province, Liaoning province, Fujian province, Henan province and Shandong province. As at 30 September 2016, the Group secured a total 311 city piped gas projects with exclusive concession rights, 13 long-distance natural gas transmission pipeline projects, 573 compressed/liquefied natural gas ("CNG/LNG") refilling stations for vehicles, 1 coal bed methane development project and 98 LPG distribution projects in 25 provinces, autonomous regions and municipalities.

The Group has sold a total of 4,811,589,000 cubic meters of piped gas, an increase of 7.1% over the same period last year. Among that, a total of 4,731,987,000 cubic meters of natural gas has been sold, a 8.2% increase over the same period last year. The Group's natural gas is sold mainly through the city piped gas network (retail) with high dollar margin and wholesale business (including long distance natural gas transmission pipelines) with low dollar margin. Among them, 3,321,184,000 cubic meters were sold through city piped gas networks, an increase of 11.1% over the same period last year, and 1,410,803,000 cubic meters through the wholesale business, an increase of 1.8% over the same period last year.

Of the total volume of natural gas sold, residential users accounted for 20.7%; industrial users 47.9%, commercial users 16.3%, vehicle and vessel users 15.1%. During the period, the Group completed connections for 1,138,408 new residential households, 547 industrial users and 12,007 commercial users, and now cumulatively serves a total of 16,065,834 residential users, 5,214 industrial users and 101,855 commercial users, an increase of 18.0%, 28.3% and 31.4%, respectively, over the same period last year. The Group took an active role in coordinating and cooperating with local governments at various levels to accelerate the construction of gas-fired central heating systems and "coal-to-gas" conversion projects. During the period, the Group entered into new "coal-to-gas" contracts with 584 industrial and commercial customers to renovate coal-fired boilers with total capacities of 1,630 tonnes of steam. The natural gas demand from the newly signed "coal-to-gas" users reaches 200 million cubic meters/year. In the coming years, the Group believes that natural gas demand from industrial and commercial users implementing "coal-to-gas" projects and winter heating for residential users will continue to increase and become one of the key drivers to achieve sustainable growth in natural gas sales volume.

As at 30 September 2016, the Group's city gas projects covered a connectable population of 100,975,368 people (approximately 31,002,516 households). The number of accumulated connected residential users of the Group was 16,065,834, representing an overall household gas penetration rate of 51.8%, lower than the 70% rate in mature markets. The Group thus believes that connection fees should continue to provide a stable contribution to its overall income and cashflow in the coming years.

International oil prices have remained subdued since the great plunge of 2015, and prices of alternative energy such as fuel oil and LPG have dropped correspondingly, which eliminated the reasonable price difference between natural gas and alternative energy and posed considerable pressure on the promotion of natural gas. On 18 November 2015, NDRC published a notice on natural gas price adjustment. It stated that, effective from 20 November 2015, the maximum non-residential natural gas price at city-gates would be reduced by RMB0.7 per cubic meter. The Group actively responded and completed this cost pass-through adjustment to relieve the burden of downstream corporate gas users without delay, pushed forward the use of natural gas in industrial and commercial sectors, transportation, power generation and central heating, and effectively facilitated the long-term and healthy development of natural gas in China.

Compressed Natural Gas ("CNG") /Liquefied Nature Gas ("LNG") Refilling Stations

During the review period, international oil prices remained at a low level, hence the market development and gas sales of CNG/LNG refilling stations faced pressure when competing with alternative energy such as new energy and LPG. In view of the short-term difficulties faced by the refilling stations industry, the Group proactively adjusted its strategy for the development of refilling stations. Through enhancing the management of its current stations, strengthening investment risk control for new stations and promoting market development, the Group achieved steady growth in its gas sales, amidst the sluggish economy and decreases in the economic benefits of gas for vehicles. At the same time, the Group has also made tremendous efforts to promote its value-added business, such as the "All-In-One-Card" (一卡通) smart card system and convenience stores, in refilling stations, so as to expand the source of profit, attract both new and old customers, and increase customer loyalty.

As at 30 September 2016, the Group owned a total of 573 natural gas refilling stations for vehicles and vessels, representing a year-on-year increase of 5.3%. Vehicle and vessel gas sales volume accounted for 15.1% of the total sales volume of city gas projects, an increase of approximately 0.4% over the same period last year.

Liquefied Petroleum Gas（"LPG"）

During the Period, the Group sold 1,717,887 tonnes of LPG, an increase of 25.7% over the same period last year, of which, wholesale and retail sales volume increased 33.0% and 11.7% to 1,191,200 tonnes and 526,687 tonnes respectively. Total sales revenue was HK$4,830,057,000, representing a decrease of 11.9% over the same period last year. The drop of revenue was attributed to the corresponding decline in LPG sales prices affected by the low international oil prices during the period, yet as LPG procurement costs were down correspondingly, the gross profit of the segment decreased 11.7% to HK$604,276,000, operating profit was HK$234,971,000, and net profit was HK$141,809,000 (net of exchange loss for the period) (for the six months ended 30 September 2015: HK$153,911,000).

At the beginning of this financial year, the Group proposed to speed up implementing the "Strategic Layout of LPG Business across the Country" under which its LPG business will expand from 10 key provinces in southern China to provinces and cities in the northern, western and northeastern regions. Under the general layout of the strategic development of the Group's LPG business, the Group carried out comprehensive market research across China, and entered into business negotiations as well as invested in and established new project companies. Due to new market expansion, the distribution costs and administrative expenses have increased correspondingly; and as the new projects have yet to be operated, the financial performance of the Group's LPG business was affected during the review period. With the completion and operation of new projects, the overall economies of scale and profitability of the LPG business will gradually increase.

Value-Added Services for End Users

With the continuous increase in the penetration rate of city gas projects, the Group's customer base has been expanding rapidly. Currently, the Group provides more than 21 million residential, industrial and commercial customers with piped natural gas and LPG services. There is an enormous potential for value-added services in the customer network. To capture these opportunities, the Group strives to increase the percentage of its income from value-added services in its overall operating income and has established different teams including a department of value-added business, Gasbo Electrical & Gas Appliances Company Limited (中燃寶電氣(深圳)有限公司) and Zhongran SmartLiving E-commerce Company Limited (中燃慧生活電子商務有限公司). These teams are appointed to actively develop various new business around its gas sales business, including the promotion of gas appliances under the brand of Gasbo (中燃寶), providing a comprehensive gas insurance agency service, maintenance and renovation, and sales of corrugated gas pipes and gas alarms.

During the period, the value-added business recorded a gross profit of HK$172,128,000, an increase of 86.0% over the same period last year within which, insurance agency service and sales of gas alarms, corrugated pipes and gas appliances all recorded significant surges.

Solid Financial Position with diversified financing channels

The Group has always adopted a prudent financial management policy. With sufficient cash on hand, a reasonable gearing ratio and steadily growing cash flow from its gas operations, the Group is in a strong financial position. Over the years, the Chinese (including Hong Kong) and overseas banks have given strong financial support to the Group's rapid business development. China's RMB bonds market has achieved significant development since 2015, and there has been a sharp rise in the size of bond issuance. The Group's wholly-owned subsidiaries within China actively participated in China's interbank bond market and issued mid-term RMB notes and short-term RMB financing bonds in the amount of RMB6.6 billion up to this moment. At the same time, China Gas, as a foreign issuer has also been actively participating in financing activities through issuing RMB bonds in the bond market of the stock exchanges and interbank bond market in China.

On 26 October 2016, the Group cooperated with China Insurance Investment Fund L.P. to establish the China Insurance Investment China Gas (Shenzhen) Clean Energy Development Fund L.P. (the "Fund"), dedicated to capturing the development opportunities in the clean energy industry in China. The Fund is expected to reach RMB10,020,000,000. It will provide key capital support to the Group's 4G (PNG, LNG, CNG and LPG) gas projects development.

Foreign Exchange and Interest Rate Risk Management

Most of the revenue and expenses of the Group are denominated in RMB. However, certain bank loans and other borrowings and bank balances are denominated in currencies other than the functional currencies of the relevant entities of the Group. The appreciation or depreciation of the RMB against foreign currencies will thus result in exchange gain or loss. Although most of such gain or losses are non-operating in nature, it can still cause a positive or negative impact on the results of the Group.

To mitigate the effect of exchange gain or loss on its results, the Group has revised its exchange rate risk management policies. It has managed to effectively avoid risks by closely monitoring the trends of interest rates and foreign exchange rates and adjusted its debt structure in a timely and reasonable manner. In accordance with such exchange rate risks management policies, the Group has actively adjusted the structure of debt in RMB and foreign currencies and replaced existing US Dollar-denominated debt with RMB-denominated debt. Although these actions inevitably increased financial costs, yet they could effectively mitigate the potential impact of future exchange losses. As at

30 September 2016, the proportion of foreign currency debt was 6%.

Business Development and Prospects

Impacted by the slowdown in growth of China's economy, the operation rate of industrial users fell and natural gas demand from large consumers, such as glassworks, ceramics, aluminum and steel manufacturers decreased. In addition, factors such as persistently low international oil prices and depreciation of the RMB have further affected the gas industry. However, the Group believes that the Chinese government's continuous promotion of policies such as the "Action Plan on Prevention and Control of Air Pollution" and "coal-to-gas" conversion will stimulate the market demand for natural gas in the long term. To cope with the challenges brought about by the macroeconomic environment and low oil prices, the Group is making timely adjustment to its marketing strategies to capture the opportunities presented by the government's support of clean energy development. Leveraging its strengths, China Gas is further exploiting the market potential to seek new growth drivers for gas demand.

With regards to the natural gas business, the Group will continue to increase the number of old and new residential gas connections, and enhance the development of commercial users. At the same time, the Group will play an active role in coordinating and cooperating with local governments at various levels to accelerate the construction of gas-fired central heating systems and "coal-to-gas" conversion projects. The Group will also made use of its own fleet vehicles for transporting natural gas to develop rural and point-to-point natural gas supply projects in order to promote its natural gas sales to industrial and commercial users and for winter heating consumption. In addition, the Group will constantly push ahead with price management, and steadily promote the development and deployment of vehicle and vessel gas projects. Furthermore, the Group will raise management and operations efficiency of projects to ensure the stable development and rapid growth of the city piped natural gas market through management coordination between the headquarters and regional management centres.

As for the LPG business, the Group believes LPG consumption will maintain stable growth. With the building of "new villages" and urbanisation well underway, demand for clean energy is increasing. Furthermore, new development opportunities are expected as China's LPG deep processing industry is growing rapidly. As the largest LPG distributor in China, China Gas will firmly grasp the golden development opportunities brought by the continuous downtrend of global LPG prices and the upgrade of the LPG deep processing industry in order to expand its business scale, carve out a larger business presence from south to north, east to west, further expand its network and ultimately increase its market share. The Group will also leverage the existing "vertically integrated" industry value chain to reach effective synergies between regional management centres and city gas business by maximising the strengths of informatisation, economies of scale and branding of the Group. The Group targets to integrate markets and resources, further improve business performance, and develop the LPG business into a major contributor to its performance, thereby laying a solid foundation for its overall future strategies.

Last but not least, the exponential growth in value-added business and the successful launch of Gasbo brand kitchen appliances have further promoted China Gas to transform from a gas distributor to a truly integrated operation service provider with gas business as the core base. In the future, the Group will continue to carry out various sales and marketing activities, as well as to increase its efforts in business training and performance guidance, so as to raise the popularity and satisfaction level of its value-added business for end users among its gas users. In addition, the Group will continue to leverage its internet marketing platform of "Zhongran Smart Living" to push its value-added business to end users and for its 4G energy network to move forward synergistically. For the distributed energy and electricity sales business, as the industry environment has improved and China's related planning and supporting policies have become clear and concrete, the Group will adjust its approach to simultaneously explore its four new businesses, including distributed energy, central heating, gas-fired power generation and electricity distribution. Meanwhile, the Group will make efforts to bolster its existing market and technological advantages and utlise its regional management centres and project companies to further enlarge its market share within the operating areas, while forming alliances with industry giants outside its operating areas to complement each other's strengths, thereby achieving the successful execution and implementation of large-scale projects and the electricity distribution business.

Mr. Liu Ming Hui, Executive Chairman, Managing Director and President of China Gas, said, "In the first half of the year, affected by various factors such as slow recovery of global economies, further economic slowdown in China, persistently low international oil prices, and the lack of competitive advantages of natural gas when compared with alternative energy, the entire energy industry, including China Gas, faced various challenges. Nevertheless, I am very proud that the Group still managed to deliver satisfactory half-year results amidst a highly challenging environment; and I would like to express my gratitude to all staff members for their efforts, diligence and dedication.

"With the growth of industrialisation, urbanisation and informatisation in China and the increasing demand for environmental protection and green development, the Chinese government has launched a series of policies to prevent and control air pollution. In particular, 'The Air Pollution Prevention and Control Measures for Beijing, Tianjin and Hehei (2016-2017)' (京津冀大氣污染防治強化措施(2016—2017 年)) requires that a series of national prevention and control works in relation to air pollution must be completed by the end of October 2017. The works include: Implementing 'zero coal usage' or 'replace coal with gas' policies in rural villages within a specified period; phasing out coal-fired boilers of 35 steam tonnes per hour or smaller in all Beijing, Tianjin and Hebei city areas; and classifying the areas to the east of the Beijing-Kunming Expressway, to the north of the Rongcheng-Wuhai Expressway and the counties connecting Beijing, Tianjin, Baoding and Langfang as 'coal ban' areas. In view of the situation, China Gas has undertaken in full force to support relevant state policies, and seized the strategic development opportunities brought by the 'replace coal with gas' and 'coal-to-gas' conversion policies in all rural villages, suburban areas and urban areas of Beijing, Tianjin and Hebei regions. These supportive policies are expected to greatly increase the connection of new users to China Gas and fuel tremendous demand for gas in the coming year.

"Air pollution prevention and control is a state policy which has been firmly executed by the Chinese government. To capture the opportunities presented by the long-term development of the clean energy industry in China, China Gas has recently established the RMB10 billion China Insurance Investment China Gas (Shenzhen) Clean Energy Development Fund L.P. with China Insurance Investment Fund L.P., with the aim to provide key capital support to the Group to speed up the development of 4G energy network and stimulate the transformation of China Gas from a gas supplier to an integrated energy solutions provider. China Gas is highly honored to be the first enterprise to establish a gas industry fund; and we will continue to leverage the Group's strong capital, technological and management advantages to accelerate our works in the second half of the year and implement all development strategies in order to achieve excellent results and maximise our value."

– End –

About China Gas

China Gas Holdings Limited ("China Gas", stock code: 384) is principally engaged in the investment, construction and management of city gas pipeline infrastructure, distribution of natural gas and LPG to residential, industrial, commercial users, and through gas stations to the transportation sector. Major shareholders of the Company include the Beijing Enterprises Group (BVI) Company Limited, SK group of companies, Fortune Oil PLC in UK and Gail (India) Limited. To date, China Gas owns a total of 325 natural gas projects, including exclusive piped gas development rights in 311 cities and regions, 13 natural gas pipeline transmission projects and 1 coal bed methane development projects, as well as the license to import and export LNG and other fuel products in China, and 98 LPG distribution projects.

For more information, visit www.chinagasholdings.com.hk.

For enquiries: **Strategic Financial Relations Limited**

Ingrid Cheng	Tel: (852) 2864 4836	ingrid.cheng@sprg.com.hk
Rita Fong	Tel: (852) 2114 4939	rita.fong@sprg.com.hk
Hawaii He	Tel: (852) 2798 4847	hawaii.he@sprg.com.hk