



## Changfeng Reports Q1 2012 Results and Provides Business Updates

**May 30, 2012**

**Toronto, Ontario, May 30, 2012** – Changfeng Energy Inc. ("Changfeng" or the "Company") (TSX-V: CFY), a natural gas distribution utility operating in China, today reported its unaudited interim consolidated financial results for the first quarter ended March 31, 2012. All figures are in Canadian dollars unless otherwise stated. The unaudited interim consolidated financial statements and Management Discussion and Analysis may be downloaded from [www.SEDAR.com](http://www.SEDAR.com) or from the Company's website at [www.changfengenergy.com](http://www.changfengenergy.com).

### Summary of Q1 2012 Consolidated Financial Results

(in thousands in \$Cdn) except percentages and per share data

	Q1 2012	Q1 2011	Change	%
Revenue	7,365	6,534	831	13%
Gross margin	3,902	3,534	368	10%
EBITDA	2,086	2,224	-138	-6%
Net income	826	1,110	-284	-26%
Basic and diluted EPS	0.013	0.017	-0.004	-25%

#### **Revenue**

Revenue for the first quarter of 2012 was \$7.4 million, representing an increase of \$0.8 million, or 13%, from \$6.5 million for same period of 2011. The increase reflects continued gas volume growth from the CNG refueling retail station and a 6% appreciation of the Chinese RMB against the Canadian dollar, partially offset by the lower sales volume and gas connection fees from the Sanya Region, due to a continued slowdown in the pace of real estate development in the Sanya Region.

#### **Gross margin**

Gross margin for the first quarter of 2012 increased \$0.4 million, or 10%, to \$3.9 million from \$3.5 million for the comparable period in 2011. As a percentage of sales, gross margin decreased to 53% in the first quarter of 2012 from 54% in the same period in 2011. The 1% decrease was primarily due to the higher purchase price of gas for Other Gas and relatively low margins (22%) on gas sales from the Company's CNG refueling retail station.

#### **Operating expenses**

Operating expenses for the first quarter of 2012 totaled \$2.3 million, an increase of \$0.5 million, or 28%, from \$1.8 million for the comparable period in 2011. The higher expense



reflects a \$0.2 million one-time sponsorship fee for a provincial-level table tennis tournament, and increased travel and business development expenses (\$0.3 million).

#### ***EBITDA***

Earnings before interest, tax, depreciation and amortization (“EBITDA”), as defined in the Management Discussion and Analysis for the first quarter of 2012 decreased \$0.1 million, or 6%, to \$2.1 million from \$2.2 million for the same period in 2011. The decrease is mainly attributable to increased operating expenses, partially offset by increased sales.

#### ***Net income***

Net income for the first quarter of 2012 was \$0.8 million, or \$0.013 per basic and diluted share compared to \$1.1 million or \$0.017 per basic and diluted share for the same period in 2011, primarily due to the reasons stated above.

#### ***Financial position***

Cash and cash equivalents decreased by \$0.6 million to \$4.5 million at March 31, 2012 from \$5.1 million at December 31, 2011, primarily resulting from cash provided during the quarter by operating activities of \$0.6 million, offset by cash used during the quarter for capital expenditures of \$0.8 million and a \$0.2 million principal repayment of the bank term loan.

Working capital deficit as at March 31, 2012 decreased to \$9.9 million from \$10.7 million at December 31, 2011.

The adjusted working capital deficit as defined in the Management Discussion and Analysis was \$3.0 million as at March 31, 2012, which the Company believes is manageable given its profitability and access to further credit. Adjusted working capital excludes \$2.1 million of interest payable to Sanya State Assets Management Corporation (a state-owned company) for years ending in 2007 and \$4.8 million of one-year renewable line of credit.

Mr. Huajun Lin, Chairman and CEO of Changfeng stated that, “We are pleased with our quarterly results and the continued growth in cash contributions from our operation in Sanya Region. The Company’s existing operation in Sanya Region is stable and generates solid free cash flow that has been used to fund our growth initiatives in mainland China. During the quarter, we made significant progress in addressing the gas shortage in Sanya Region by launching a Gas & Electricity Exchange Program which commenced its construction on May 28, 2012.”

He further added that we made substantial progress executing our long-term growth strategy in mainland China along the Petro-China Second West-East Pipeline, leading to the regulatory approval of both the liquefied natural gas producing and storage plant (the “LNG Plant”) in Xiangtan City, Hunan Province, and the pipeline gas distribution business in Xiangdong District, Pingxiang City, Jiangxi Province (“Xiangdong project”), as well as a proposed joint venture with a subsidiary of PetroChina to develop the natural gas distribution business in four specified prefecture-level cities in Guangdong Province, China. We remain focused on our commitment to creating significant long-term growth and value to our shareholders.

## **Business updates**

### ***First Phase of Construction Works in the Xiangdong Project, in Pingxiang City, Jiangxi Province***

The first phase of construction work on the Xiangdong Project, in Pingxiang City, Jiangxi Province, China is making progress. This phase comprises a gate station where the Company receives, processes, stores and distributes natural gas to its pipeline networks, and 7,500 meters of frame pipeline in the Pingxiang Ceramic Industry Production Park (the "Park"). Currently, more than 4,500 meters of pipeline has been completed. Due to unseasonal weather, the Company has experienced a delay in construction and now expects that the first phase of construction will be completed and start to supply gas to the ceramic manufacturers in the Park in the fourth quarter of 2012.

### ***Abandonment of Acquisition of a 60% Equity Interest of Gaoan Huaneng Pipeline Co., Ltd.***

Further to the Company's announcement on August 30, 2010 regarding an acquisition of a 60% equity interest in Jiangxi Gaoan Huaneng Pipeline Co., Ltd. ("Gaoan Huaneng"), the Company determined to abandon this acquisition primarily due to an unsatisfactory economic feasibility report and uncertainty over its Concession Right's coverage that was originally claimed by Gaoan Huaneng. Pursuant to the Letter of Intent and the subsequent abandonment agreement with the existing shareholder of Gaoan Huaneng, the Company is not required to make any further payments. A RMB 500,000 deposit (approximately \$75,000) was fully refunded to the Company on May 5, 2011. The title of the 60% interest of Gaoan Huaneng was transferred back to Gaoan Huaneng.

## **About Changfeng Energy Inc.**

Changfeng Energy Inc., is a natural gas service provider with operations located throughout the People's Republic of China. The Company services industrial, commercial and residential customers, providing them with natural gas for heating purposes and fuel for transportation. The Company has developed a significant natural gas pipeline network as well as urban gas delivery networks, stations, substations and gas pressure regulating stations in Sanya City & Haitang Bay. Through its network of pipelines, the Company provides safe and reliable delivery of natural gas to both homes and businesses. The Company is headquartered in Toronto, Ontario and its shares trade on the Toronto Venture Exchange under the trading symbol "CFY". For more information, please visit the Company website at [www.changfengenergy.com](http://www.changfengenergy.com)

## **For further information please contact:**

Mr. Kevin M. Zhang  
Chief Financial Officer

Ms Ann S.Y. Lin  
Corporate Secretary



416.362.5032  
kevin@changfengenergy.com

416.362.5032  
ann@changfengenergy.com

**Forward-Looking Statements**

Information set forth in this news release may involve forward-looking statements under applicable securities laws. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this document are made as of the date of this document and the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities legislation. Although Management believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. This news release does not constitute an offer to sell or solicitation of an offer to buy any of the securities described herein and accordingly undue reliance should not be put on such.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSXV) accepts responsibility for the adequacy or accuracy of this release.

- End -