



新奧燃氣控股有限公司 XINAO GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

INTERIM REPORT
2001



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This document, for which the directors of Xinao Gas Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- The Group's turnover was approximately RMB99.0 million for the six months ended 30 June 2001, representing an increase of approximately 2.6 times over the same period last year.
- Connection fees of approximately RMB77.2 million (representing approximately 78.0% of the Group's turnover) were derived from the provision of new connections to 17,989 new households and 53 new commercial and industrial sites.
- Gas usage charges of approximately RMB21.4 million (representing approximately 21.6% of the Group's turnover) were derived from the sale of a total of approximately 5,786,000 cubic metres of piped gas to residential customers and the sale of approximately 9,427,000 cubic metres of piped gas to commercial and industrial sites.
- Net profit increased by approximately 5.3 times to approximately RMB28.0 million for the six months ended 30 June 2001 when compared to the same period last year.
- As at 30 June 2001, the Group had made gas connections to a total of 84,004 households and 296 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of 183,363 cubic metres).
- As at 30 June 2001, the Group owned and operated a total of 330 kilometres of intermediate pipelines and main pipelines and nine processing stations.
- Earnings per share increased by approximately 4.5 times to approximately RMB5.86 cents per share for the six months ended 30 June 2001 when compared with the same period last year.

ABOUT XINAO GAS HOLDINGS LIMITED

Xiniao Gas Holdings Limited (the "Company" and together with its subsidiaries, the "Group") is one of the first non state-owned piped gas distributors in the People's Republic of China (the "PRC"). The principal business of the Group is the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped gas in the PRC. Its business activities also consist of the sale of gas appliances and equipment and the provision of repair, maintenance and other services in connection with gas supply.

The Group derives its revenues principally from connection fees receivable on the initial connection of gas and gas usage charges, and to a lesser extent, revenues are also derived from the sale of gas appliances and the provision of repair, maintenance and other gas related services.

The Company's shares were listed on GEM on 10 May 2001.

RESULTS

The directors (the “Directors”) of the Company are pleased to announce the unaudited consolidated results of the Group for each of the six months and the three months ended 30 June 2001 together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

	<i>Notes</i>	Six months ended 30 June		Three months ended 30 June	
		2001 (unaudited) <i>RMB'000</i>	2000 (unaudited) <i>RMB'000</i>	2001 (unaudited) <i>RMB'000</i>	2000 (unaudited) <i>RMB'000</i>
Turnover	2	99,019	27,868	65,274	10,911
Cost of sales		<u>(40,062)</u>	<u>(13,107)</u>	<u>(22,294)</u>	<u>(5,715)</u>
Gross profit		58,957	14,761	42,980	5,196
Other revenue		2,478	296	1,507	115
Selling expenses		(1,647)	(675)	(1,156)	(241)
Administrative expenses		(14,907)	(3,135)	(8,880)	(2,213)
Other operating expenses		<u>(503)</u>	<u>–</u>	<u>(503)</u>	<u>–</u>
Profit from operations		44,378	11,247	33,948	2,857
Interest expense		<u>(6,349)</u>	<u>(3,672)</u>	<u>(2,888)</u>	<u>(2,031)</u>
Profit before taxation		38,029	7,575	31,060	826
Taxation	3	<u>(7,376)</u>	<u>(1,136)</u>	<u>(5,234)</u>	<u>(124)</u>
Profit before minority interests		30,653	6,439	25,826	702
Minority interests		<u>(2,640)</u>	<u>(1,971)</u>	<u>(2,121)</u>	<u>(215)</u>
Profit for the period		<u>28,013</u>	<u>4,468</u>	<u>23,705</u>	<u>487</u>
Earnings per share (RMB)	4	<u>5.86 cents</u>	<u>1.06 cents</u>	<u>4.43 cents</u>	<u>0.12 cents</u>

Notes:

1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 July 2000. On 28 March 2001, pursuant to a reorganisation (the "Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the subsidiaries included in the Reorganisation. The shares of the Company were listed on GEM on 10 May 2001.

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Reorganisation completed on 28 March 2001 referred to above. Under this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Reorganisation for the entire financial period presented.

During the six months ended 30 June 2001, the Company completed the acquisition of 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited*) and 北京新奧京谷燃氣有限公司 (Beijing Xinao Jingu Gas Company Limited*) and the results of these two subsidiaries are included from their effective dates of acquisition.

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

2. Turnover

The Group's turnover comprises the following:

	Six months ended		Three months ended	
	30 June		30 June	
	2001	2000	2001	2000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Gas connection fees	77,224	18,653	57,395	8,342
Gas usage charges	21,404	9,172	7,617	2,537
Sale of gas appliances	391	43	262	32
	<u>99,019</u>	<u>27,868</u>	<u>65,274</u>	<u>10,911</u>

3. Taxation

For the six months and the three months ended 30 June 2001, 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited*), a 95% owned subsidiary of the Company in the PRC, was the only subsidiary of the Group that is liable to pay income tax at a rate of 30% (2000: 15%). All of the Group's other subsidiaries in the PRC are entitled to an exemption from income tax for two years from the first profit-making year and 50% reduction for the three years thereafter.

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable net profits arising in Hong Kong during the six months and the three months ended 30 June 2001 and their corresponding periods in 2000.

There was no significant unprovided deferred taxation for the six months and the three months ended 30 June 2001 and their corresponding periods in 2000.

4. Earnings per share

The calculation of basic earnings per share is based on the unaudited consolidated net profit for the six months and the three months ended 30 June 2001 of RMB28,013,000 and RMB23,705,000 (2000: RMB4,468,000 and RMB487,000) and the weighted average number of 477,679,556 and 534,725,274 shares in issue during the aforementioned two periods ended 30 June 2001 (2000: 420,000,000 and 420,000,000 shares).

Diluted earnings per share is not presented because there were no potential dilutive shares in existence during the respective periods.

5. Reserves

There has been no transfer to or from reserves during the six months and the three months ended 30 June 2001 and their corresponding periods in 2000.

INTERIM DIVIDEND

The Directors have resolved not to recommend the payment of an interim dividend by the Company for the six months ended 30 June 2001 (2000: Nil).

BUSINESS REVIEW

The Group performed well and achieved remarkable growth during the six months ended 30 June 2001 (the "Half-Year Period"). During the Half-Year Period, the Group's turnover increased by approximately 2.6 times to approximately RMB99.0 million when compared to the same period last year. Such growth was fuelled by both an increase in connection fees from the expansion of the customer base and an increase in gas usage charges due to higher gas consumption. During the Half-Year Period, the Group's turnover was mainly derived from 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited*), 聊城新奧燃氣有限公司 (Liaocheng Xinao Gas Company Limited*), and 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited*) and three other project companies. As a majority of these project companies are in their initial years of operations, the Directors expect to experience significant growth through the further development of gas pipeline infrastructure within these operational locations and the implementation of effective marketing and promotional campaigns.

During the Half-Year Period, the Group's connection fees reached approximately RMB77.2 million, representing an increase of approximately 3.1 times over the same period last year. Connection fees accounted for approximately 78.0% of the Group's turnover and remained the Group's major source of revenue. For the Half-Year Period, the Group made new gas connections to a total of 17,989 households and 53 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of approximately 39,500 cubic metres). As at 30 June 2001, the Group had made gas connections to a total of 84,004 households and 296 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of 183,363 cubic metres). In relation to gas usage charges, the Group sold a total of approximately 15,213,000 cubic metres of gas during the Half-Year Period and generated gas usage charges of approximately RMB21.4 million, representing an increase of approximately 1.3 times over the same period last year.

Net profit for the period was approximately RMB28.0 million, representing an increase of approximately 5.3 times over the same period last year. For the Half-Year Period, the earnings per share was approximately RMB5.86 cents, representing an increase of approximately 4.5 times over the same period last year.

During the Half-Year Period, the Group built an additional 62 kilometres of intermediate pipelines and main pipelines. The Group's total length of intermediate pipelines and main pipelines reached 330 kilometres at the end of the Half-Year Period. As at the end of the Half-Year Period, the Group had nine processing stations.

In an effort to further develop the Group's business, the Group actively explores and identifies suitable investment opportunities in focussed areas in the PRC. Discussions with local governments and numerous feasibility studies on potential locations where demand for piped gas is apparent have been, and will continue to be, conducted. Following the listing of the Company's shares on GEM in May 2001, the Group has successfully completed the acquisition of 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited*) and 北京新奧京谷燃氣有限公司 (Beijing Xinao Jinggu Gas Company Limited*) and established 諸城新奧燃氣有限公司 (Zhucheng Xinao Gas Company Limited*) and 青島新奧新城燃氣有限公司 (Qingdao Xinao Xincheng Gas Company Limited*). Furthermore, the Group has successfully obtained an exclusive right to supply and distribute piped natural gas to the Yantai Economic and Technical Development Zone in Shandong Province, the PRC. As at the end of the Half-Year Period, the Group has obtained relevant approvals to operate piped gas businesses in 10 locations in the PRC.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Set out below is a comparison between the Group's actual business progress up to 30 June 2001 and its business objectives and strategies as set out in the prospectus:

	Targets as stated in the prospectus	Actual business progress up to 30 June 2001
Sales and operations		
• Number of new residential household connections	13,000	16,128
• Additional installed designed daily capacity for commercial and industrial customers (m ³ /day)	17,484	34,949
• Residential gas consumption ('000 m ³)	2,686	2,161
• Commercial/industrial gas consumption ('000 m ³)	3,140	2,838
• Pipelines* to be constructed (km)	150	121

* Pipelines include the intermediate, main and branch pipelines

Research and development

- | | | |
|---|---|-------------------------------|
| <ul style="list-style-type: none">Develop internal capability to manufacture stored value card gas metres | To commence supply in the second half of 2001 | Commenced supply in June 2001 |
|---|---|-------------------------------|

Reasons for material differences between planned business objectives and actual business progress.

1. Sales and operations

a. Customer connection

As a result of an effective marketing campaign and the smooth progress of pipeline construction (in particular in the Group's operational locations in Hebei Province, Shandong Province and Liaoning Province), the Group successfully achieved its connection targets ahead of schedule.

b. Gas consumption

The shortfall in the volume of gas consumed is attributable to the following:

- the unexpected delay in the completion of the acquisition of 北京新奥京昌燃气有限公司 (Beijing Xinao Jingchang Gas Company Limited*) ("Jingchang Xinao");
- since most of the connections were made to new residential developments, there is usually a time lag between connections made and eventual occupation by the residents. The Directors expect these new residential customers will commence gas usage in the next quarter; and
- despite the increased number of customer connections, the vast majority of the connections took place towards the later part of the Half-Year Period. Accordingly, lower level of gas was consumed by the new customers.

c. Pipelines to be constructed

The estimated total length of pipelines to be constructed fell short of the amount budgeted as a result of unexpected delay in the completion of the acquisition and establishment of two project companies.

2. Research and development

The Group has speeded up its development of stored value card gas metres in order to take advantage of the cost savings that can be brought to the Group. Installation of production facilities with an annual capacity of 100,000 metres was completed in June 2001.

Proceeds from issuance of new shares

From 10 May to 30 June 2001, the Group has utilised approximately HK\$40.4 million in accordance with the Group's business objectives and strategies set out in the prospectus, which includes sales and operations, research and development and others.

	From 10 May to 30 June 2001	
	Planned use of proceeds as set out in the prospectus (HK\$'000)	Actual use of proceeds (HK\$'000)
Sales and operations		
Pipelines to be constructed	27,000	15,445
New processing stations to be constructed	8,000	1,428
Research and development		
Develop internal capability to manufacture stored value card gas metres	2,000	–
Others		
Acquisition of the project companies	31,000	23,519
	<u>68,000</u>	<u>40,392</u>

Reasons for difference between planned usage of proceeds and actual utilisation.

1. Sales and operations

The unexpected delay in the completion of the acquisition and establishment of two project companies has slowed down the construction of pipelines and processing stations within these operational locations.

2. Research and development

The Group has used internal resources to fund the development of stored value card gas metres in order to take advantage of the tax benefit offered by the local tax bureau. The Group intends to use the HK\$3 million originally earmarked for such development as general working capital of the Group to support its ongoing operations and expansion.

3. Acquisition of the project companies

The difference in the proceeds used for the acquisition of project companies was mainly due to the unexpected delay in the completion of the acquisition of Jingchang Xiniao.

PROSPECTS

The Directors and management of the Company remain highly positive about the future prospects of the Company. As the second half performance is traditionally stronger, the Directors are confident that the Group's existing projects will achieve strong results. Going forward, the Group will continue to expand into new operational locations using its proven ability to obtain exclusive rights or rights of first refusal from local governments to operate piped gas businesses in the PRC. The Group also aims to expand its customer base through intensive and effective marketing efforts, thereby increasing gas consumption by residential households as well as commercial and industrial customers who are high volume consumers.

The Group continues to enjoy and benefit from the considerable support from the PRC Government's environmental policies. In recognising that natural gas is one of the cleanest fossil fuels available, the PRC Government encourages the use of natural gas to replace other non-environment friendly type of energy sources in order to reduce pollution. Furthermore, the construction of long distance pipelines for the transportation of natural gas from the reserve-rich western provinces of the PRC to the more affluent provinces in the east referred to as 西氣東輸 (the "West to East Pipelines") will significantly increase the overall consumption of natural gas upon its completion in 2003. The Directors strongly believe that the West to East Pipelines can offer significant business expansion opportunities for the Group. To take advantage of this unprecedented pipeline construction, the Group has already commenced active negotiations with local governments at locations along or nearby the West to East Pipelines with a view to developing and operating piped gas businesses in these areas which include: Anhui Province, Jiangsu Province, Zhejiang Province, Hunan Province and Shanghai Municipality.

The winning of the 2008 Olympic Games bid demonstrates the world's confidence in the PRC and the Company is proud of Beijing's achievement. The hosting of the 2008 Olympic Games will have a positive impact on the PRC's economy with the PRC Government estimating that it will add an additional 0.3-0.4% to annual gross domestic product for the next seven years. In preparation for the games, RMB180 billion will be spent on infrastructure development in the next five years, of which RMB45 billion will be used for environmental protection. The Beijing Municipality Government has set a goal to increase natural gas usage in 2007 by 4.5 times the level in 2000. The Beijing Municipality also aims to achieve a minimum of second class air quantity standard by 2008. In this respect, the Beijing Municipality Government is expected to increase its efforts to promote the use of clean fuels. Further, the hosting of the Olympic Games will also lead to an increase in property development activities at neighbouring areas of Beijing and will create business opportunities for the Group. The Group's gas projects located in the suburban areas of Beijing Municipality will be one of the main beneficiaries from these initiatives. In particular, Jingchang Xinao has obtained an exclusive right to develop and supply piped gas to satellite cities in Changping which is located near the 2008 Olympic Village. According to the existing plan, some of the competition venues to be used in the 2008 Olympic Games will be built in Qingdao City, Shandong Province where the Group has operations in Huangdao District and Chengyang District.

All members of the Directors and staff are fully committed to achieving the above objectives. We are confident that the Group would yield satisfactory returns for our shareholders and will continue to provide a safe and reliable gas supply service to our valued customers.

DIRECTORS' INTEREST IN SHARES

As at 30 June 2001, the interests of the Directors and their respective associates in the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") of the Company or which required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Director	Personal interest	Family interest	Corporate interest	Other interest	Total
Mr. Wang Yusuo ("Mr. Wang")	–	–	420,000,000 shares	–	420,000,000 shares (Note)
Ms. Zhao Baoju ("Ms. Zhao")	–	–	420,000,000 shares	–	420,000,000 shares (Note)

Note: The two references to 420,000,000 shares relate to the same block of shares of the Company. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao.

Save as disclosed above, as at 30 June 2001, none of the directors or their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, are required to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Company has adopted the share option scheme on 24 April 2001. Up to 30 June 2001, no option has been granted pursuant to such share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Half-Year Period was the Company, its subsidiaries or holding company 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 2001, the register of substantial shareholders maintained under Section 16 (1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:

Name	Number of shares held	Approximate percentage of shareholding
Easywin Enterprises Limited	420,000,000 (<i>Note</i>)	66.99%
Mr. Wang	420,000,000 (<i>Note</i>)	66.99%
Ms. Zhao	420,000,000 (<i>Note</i>)	66.99%

Note: The three references to 420,000,000 shares relate to the same block of shares of the Company. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Half-Year Period.

COMPETING INTEREST

Each of the Directors and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that, none of them had any business or interest in companies that competes or may compete with the business of the Group.

SPONSOR'S INTEREST

As confirmed by the Company's sponsor, N M Rothschild & Sons (Hong Kong) Limited (the "Sponsor"), as at 30 June 2001, neither the Sponsor nor its directors, employees or associates (as referred in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Upon the listing of the shares in the Company on GEM, the Sponsor will receive fees under a sponsor's agreement dated 10 May 2001 between the Company and the Sponsor in connection with services to be rendered by the Sponsor pursuant to Rules 6.01 and 17.81 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee on 28 March 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules and with reference to guidance published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group.

By order of the board
Xinao Gas Holdings Limited
WANG YUSUO
Chairman

Hong Kong, 9 August 2001

* *For identification only*