



新奥燃气控股有限公司
XinAo Gas Holdings Limited



with XinAo Gas

INTERIM REPORT 2005
中期業績報告

XINAO GAS HOLDINGS LIMITED

INTERIM REPORT 2005

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

Dear Shareholders,

The Board of Directors (the "Directors") of Xinao Gas Holdings Limited (the "Company" and together with its subsidiaries, the "Group") announces that the unaudited profit attributable to shareholders of the Group for the six months ended 30 June 2005 (the "Relevant Period") was RMB110,710,000, representing an increase of RMB21,444,000 or 24.0% as compared to RMB89,266,000 for the corresponding period last year.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

The major results and operational data of the Group for the Relevant Period together with the comparative figures for the corresponding period last year are as follows:

	Six months ended 30 June		
	2005 (Unaudited)	2004 (Unaudited and restated)	Increase (Decrease)
Turnover (RMB)	853,601,000	587,118,000	45.4%
Gross profit (RMB)	299,701,000	234,698,000	27.7%
Profit attributable to shareholders (RMB)	110,710,000	89,266,000	24.0%
Earnings per share – Basic (RMB)	12.6 cents	10.8 cents	16.7%
Connectable urban population	31,446,000	20,488,000	53.5%
Connectable residential households	10,482,000	6,829,000	53.5%
New natural gas connections made to residential households during the Relevant Period	123,799	104,142	18.9%
New natural gas connections made to commercial/ industrial ("C/I") customers during the Relevant Period	516	304	69.7%
New installed designed daily capacity for natural gas C/I customers during the Relevant Period (m ³)	438,739	187,405	1.3 times
Accumulated number of natural gas residential customers	904,791 ^(Note 1)	566,041 ^(Note 2)	59.8%
Accumulated number of natural gas C/I customers	2,553 ^(Note 1)	1,275 ^(Note 2)	1.0 time
Accumulated installed designed daily capacity for natural gas C/I customers (m ³)	1,662,800 ^(Note 1)	810,658 ^(Note 2)	1.1 times
Accumulated piped gas residential customers	1,234,652	764,954	61.4%
Accumulated piped gas C/I customers	3,074	1,529	1.0 times
Accumulated installed designed daily capacity for piped gas C/I customers (m ³)	1,733,791	821,198	1.1 times
Natural gas penetration rate	8.6%	8.3%	–
Piped gas penetration rate	11.8%	11.2%	–
Unit of piped gas sold to residential households (m ³)	96,460,000	56,817,000	69.8%
Unit of piped gas sold to C/I customers (m ³)	120,619,000	59,989,000	1.0 times
Unit of liquefied petroleum gas ("LPG") sold (ton)	22,799	19,522	16.8%
Number of compressed natural gas ("CNG") vehicle refuelling stations	8	1	7
Number of natural gas processing stations	59	46	13
Total length of existing intermediate and main pipelines (km)	6,581	2,690	1.4 times

Notes:

1. Including accumulated 146,314 natural gas residential customers and 522 natural gas C/I customers (with a total designed daily capacity of 165,947 m³) from acquisition/conversion.
2. Including accumulated 80,616 natural gas residential customers and 189 natural gas C/I customers (with a total designed daily capacity of 90,460 m³) from acquisition/conversion.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Pipeline Construction

During the Relevant Period, gas connection fee revenue reached RMB410,962,000, representing an increase of 29.5% over the corresponding period last year and accounting for 48.1% of the total revenue. The average connection fees for residential households and C/I customers were RMB2,672 and RMB294 (per m³) respectively. As compared to 2004, the average connection fees for residential households remained at the same level; the average connection fees for C/I customers dropped because of special discount the Group offered for attracting more C/I connections. As C/I customers are the main gas users, more C/I customers can significantly increase gas sales volume in the future, fully utilise the contracted gas volume from West-East Pipeline and provide reliable and steady revenue and cash flow.

The designed daily capacity for C/I customers newly installed during the Relevant Period increased 1.3 times as compared to the corresponding period last year. After the completion of the West-East Pipeline Project last year, the Zhong-Wu Pipeline also commenced gas supply to transmit gas from Zhong County in Sichuan to Wuhan and Changsha this year. With these Pipelines and the liquefied natural gas ("LNG") terminals under construction, the Group expects that there will be more and more piped natural gas sources available. Sufficient gas supply will facilitate more connections to both residential and C/I customers and strengthen the Group's stable long term revenue. Besides, when more project companies shift from using CNG/LNG to piped natural gas supply, there will be further gas cost savings and higher gas sales margins in the future.

Gas Sales

During the Relevant Period, piped gas sales revenue reached RMB333,228,000, representing an increase of 71.1% over the corresponding period last year and accounting for 39.1% of the total revenue, and the sales volume of natural gas also increased by 92.0%. The strong increase in piped gas sales reflected that our strategy of only securing gas projects that already had or would have stable natural gas sources was highly successful and could support large gas sales; it also demonstrated that our tactic of focusing on increasing the gas penetration rates in our project cities to boost gas sales revenue worked very well.

CNG vehicle refuelling station ("CNG station") business has been in operation in Langfang, Shijiazhuang and Xinxiang. The Group is also constructing CNG stations in its existing gas projects and may acquire some existing CNG stations. Developing CNG stations not only takes full advantage of the piped natural gas sources, but also increases the economies of scale of the Group's existing projects. The Group expects that the CNG station business will become one of the major components of its natural gas sales in the long term.

During the Relevant Period, bottled LPG sales revenue reached RMB91,566,000, accounting for 10.7% of the total revenue. However, distribution of natural gas is the main business of the Group. A few project companies were mainly engaged in the sale of LPG before being acquired by the Group, but after they were acquired by the Group and the new project companies were incorporated, they have all started to develop natural gas pipeline network. The Group expects that the sale of LPG in all these projects will be replaced by piped natural gas gradually. In addition, as the long distance pipeline of Zhong-Wu Pipeline has been completed, the major acquired piped coal gas operations of the Group, which is in the three main gas projects in Hunan Province, will be also replaced by piped natural gas gradually, and the proportion of coal gas sales revenue of the Group will decline accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross and Net Profit Margins

In the Relevant Period, the overall gross and net profit margins of the Group were 35.1% and 13.0% respectively. The margins dropped when compared to the corresponding period last year, and the major factors included that there were huge volumes of piped coal gas and LPG sales during the Relevant Period, and the costs of coal gas and LPG increased a lot as compared to the corresponding period last year. In addition, the change in the Group's revenue structure was also a major factor: the proportion of high-margined connection fee revenue to total revenue decreased from 54.1% last year to 48.1% this year, and the proportion of relatively lower margined gas sales revenue increased from 33.2% last year to 39.1% this year; this trend also reflected the enhancement in the Group's revenue structure, which shifted gradually from relying on one-off connection fee revenue to recurring and steady piped gas sales revenue.

New Projects

During the Relevant Period, the Group secured the following 4 new projects:

Province	City	Connectable urban population
Guangdong	Zhaoqing High New Development Zone	60,000
Zhejiang	Yongkang	538,000
Zhejiang	Taizhou	220,000
Henan	Luoyang	1,500,000

The total connectable urban population also rose to 31,446,000 as at the end of June 2005, representing an increase of 53.5% from 20,488,000 as in June last year, and the piped natural gas penetration rate for residential households was only 8.6%. The increase in new projects and the potential C/I customers will significantly strengthen the Group's current and future income. The Group expects to obtain more quality gas projects in medium to large scale in the second half of the year.

The Group has strategic cooperation with CNOOC Nanhai Western Corporation and China Huayou (Group) Corporation in exploring downstream natural gas markets. It ensures the Group's edges on gas sources and competitiveness and has strategic significance for the Group's new project development. Luoyang was the first large project that the Group acquired jointly with China Huayou (Group) Corporation. It shows that our strategic cooperation with upstream gas suppliers to develop new projects is very successful.

Human Resources

As at 30 June 2005, the total number of staff employed by the Group was 9,804, of which 7 were based in Hong Kong. The number of staff increased 48.9% as compared to the corresponding period last year, to cope with various medium to large scale projects obtained, and it is expected that the number of staff will continue to increase when more projects are obtained in the second half of this year. The staff was remunerated at market level with benefits such as bonus, retirement benefit and share option scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES REVIEW

Liquidity and Capital Resources

As at 30 June 2005, the Group had cash on hand equivalent to RMB890,174,000 (31 December 2004: RMB911,537,000), while the total bank and other borrowings were equivalent to RMB2,155,015,000 (31 December 2004: RMB1,864,458,000), and the net gearing ratio was 49.7%, calculated by dividing net debt over equity.

Under the US\$25,000,000 Loan Agreements entered with International Finance Corporation (“IFC”), the private sector arm of the World Bank Group, the Company, Mr. Wang Yusuo (“Mr. Wang”) and the Borrowers (i.e. Bengbu Xinao Gas Company Limited, Shijiazhuang Xinao Gas Company Limited and Xiangtan Xinao Gas Company Limited, subsidiaries of the Company) have entered into the Share Retention Agreements with IFC on 18 May 2004, whereby Mr. Wang has agreed that, so long as any monies remain due or to become due and owing by the Borrowers to IFC under or in respect of the Loan Agreements, he and Ms. Zhao Baoju (“Ms. Zhao”) will own, in aggregate, directly or, at any time that he and Ms. Zhao own in aggregate all the shares in the capital of Easywin Enterprises Limited (“Easywin”), indirectly through Easywin, at least 35% of the issued share capital of the Company. Mr. Wang and Ms. Zhao are the beneficial and legal owners of Easywin, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. As at 30 June 2005, Easywin and Mr. Wang together held 43.58% interests in the Company.

On 5 August 2005, the Company issued 7-year bonds in the aggregate principle amount of US\$200,000,000 (equivalent to RMB1,622,400,000) at the issue price of 100%, which are unconditionally and irrevocably guaranteed by the guarantor subsidiaries. The guarantor subsidiaries are wholly-owned subsidiaries of the Company and are primarily holding companies that operate through subsidiaries. The coupon of the bonds is 7.375%.

The net proceeds of the bonds will be used for business expansion, including construction of CNG stations and acquisition of new projects, and for general corporate purposes of the Group, including refinancing of existing debts.

The Group captured the chance of record-low interest rate in the USA to finance business expansion. As the Group’s acquisition strategy will focus on large sized cities, the 7 year term of the Bonds can match the payback period of the investment in large sized cities. With the rising US interest rate cycle, the costs of financing with floating rates are getting higher and higher. Therefore, the Group believed that fixed rates for 7 years could facilitate the Group to have even better cost control. Also, the bonds had 5 times subscription and a record-low coupon rate among the bonds in similar nature in the market at the time of issue. It showed that the bondholders and investors gave strong credit to the Group and recognized the prospect of the Group’s business.

The Group believed that the appreciation of RMB would continue in the future. As all the operations of the Group are in the PRC, the Group will benefit from earning RMB and repaying foreign currency debts.

Currently, the Group’s operating and capital expenditures are funded by operating cash flow, internal liquidity, bank loans, convertible bonds and 7-year bonds. The Group has sufficient sources of funds and unutilised banking facilities to meet the future capital expenditure and working capital requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

Borrowing Structure

As at 30 June 2005, the Group's total bank and other borrowings were equivalent to RMB2,155,015,000 (31 December 2004: RMB1,864,458,000), including zero coupon convertible bonds of HK\$495,153,000 (equivalent to RMB524,862,000), loans of US\$80,000,000 (equivalent to RMB661,440,000) and a secured mortgage loan of HK\$10,652,000 (equivalent to RMB11,291,000). Apart from the zero coupon convertible bonds, all the other US dollar and HK dollar loans borne interest at floating rates, and the remaining bank and other borrowings were denominated in RMB at fixed interest rates. The project companies used the RMB loans as their working capital and operational expenditure. Except for the loan amount equivalent to RMB43,196,000 that had to be secured by net asset value equivalent to RMB112,554,000, all of the other loans were unsecured. Short-term loans were equivalent to RMB908,285,000, while the remaining were long-term loans falling due after more than one year.

As all the operations of the Group were in the PRC, revenues and expenses were mainly denominated in RMB. Hence, there was no significant foreign exchange fluctuation exposure. The Group has entered into currency and interest rate swap contracts for all syndicated loans in order to fix the exchange and interest rates.

Contingent Liabilities

The Group had no contingent liabilities as at 30 June 2005 (31 December 2004: nil).

PROSPECTS

The long distance pipelines of the West-East Pipeline Project were completed last year. The project cities that have entered into take-or-pay contracts had significant increase in both the number of connections made to C/I customers and the gas sales volume, and the gas costs decreased further. The PRC government has approved the construction of several LNG terminals, and the first LNG terminal in Shenzhen is expected to be completed in 2006. Dongguan, the Group's largest project city, will also benefit from it. With more and more LNG terminals and long distance pipelines being completed, it is expected that there will be more sufficient gas sources, which will stimulate higher piped gas penetration rates and larger gas sales in the Group's projects.

The Group also has started to construct CNG vehicle refuelling stations in massive scale. This is a long term strategic target, as the large usage volume of the public transport vehicles will bring strong and steady gas sales revenue to the Group and strengthen our long term business.

The Group has launched comprehensive IT reform to enhance internal procedures with computer systems. The reform, which is expected to be completed in 3 years, will facilitate the Group to achieve higher revenue, lower costs and better risk control.

With the government's strong support on using natural gas and the Group's abilities to obtain quality projects in medium-large cities and develop the local natural gas markets, it is expected that the business of the Group will bring high returns to the shareholders.



INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF XINAO GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have been instructed by Xinao Gas Holdings Limited to review the interim financial report set out on pages 8 to 27.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

21 September, 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

		Six months ended 30 June	
	NOTES	2005 (Unaudited) RMB'000	2004 (Unaudited and restated) RMB'000
Turnover	4	853,601	587,118
Cost of sales		(553,900)	(352,420)
Gross profit		299,701	234,698
Other operating income	5	33,097	34,853
Selling expenses		(14,574)	(12,369)
Administrative expenses		(129,501)	(102,410)
Other operating expenses		(10,120)	(11,904)
Share of results of associates		(858)	(351)
Share of results of jointly controlled entities		280	(440)
Finance costs		(29,551)	(23,949)
Profit before taxation	6	148,474	118,128
Taxation	7	(8,347)	(4,140)
Profit for the period		140,127	113,988
Attributable to:			
Equity holders of the parent		110,710	89,266
Minority interests		29,417	24,722
		140,127	113,988
Dividend	8	–	–
Earnings per share	9		
Basic		12.6 cents	10.8 cents
Diluted		12.3 cents	10.6 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2005

	NOTES	At 30 June 2005 (Unaudited) RMB'000	At 31 December 2004 (Audited and restated) RMB'000
Non-current assets			
Property, plant and equipment	10	2,941,685	2,676,631
Investment properties	10	65,641	–
Exclusive rights of operation		14,883	15,147
Goodwill		99,614	79,552
Negative goodwill		–	(4,351)
Interests in associates		69,667	61,025
Interests in jointly controlled entities		206,571	170,499
Investments in securities		–	1,439
Prepaid lease payments		202,776	196,418
		3,600,837	3,196,360
Current assets			
Inventories	11	94,266	106,899
Trade and other receivables	12	482,093	380,995
Prepaid lease payments		4,440	4,318
Derivative financial instruments		149	–
Amounts due from customers for contract work		252,387	162,035
Amounts due from associates		15,631	15,361
Amounts due from jointly controlled entities		5,209	25,092
Amounts due from related companies		54,063	51,224
Bank balances and cash		890,174	911,537
		1,798,412	1,657,461
Current liabilities			
Trade and other payables	13	504,333	482,909
Derivative financial instruments		2,315	–
Amounts due to customers for contract work		109,720	86,437
Amounts due to associates		33,459	13,474
Amounts due to jointly controlled entities		12,525	20,575
Amounts due to related companies		19,674	8,745
Taxation payable		5,556	6,249
Bank and other loans – due within one year	14	908,285	643,441
		1,595,867	1,261,830
Net current assets		202,545	395,631
		3,803,382	3,591,991
Capital and reserves			
Share capital	15	94,298	91,954
Reserves		1,992,924	1,831,250
Equity attributable to equity holders of the parent		2,087,222	1,923,204
Minority interests		459,955	438,295
		2,547,177	2,361,499
Non-current liabilities			
Bank and other loans – due after one year	14	721,868	706,155
Convertible bonds	16	524,862	514,862
Deferred taxation		9,475	9,475
		1,256,205	1,230,492
		3,803,382	3,591,991

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

Six months ended 30 June 2004

	Attributable to equity holders of the parent										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Special reserve RMB'000	Goodwill reserve RMB'000	Statutory reserves RMB'000	Property revaluation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2004 as originally stated	78,122	579,828	-	1,167	5,590	33,430	40,210	399,752	1,138,099	339,447	1,477,546
Effects of HKAS 17	-	-	-	-	-	-	(27,000)	(5,467)	(32,467)	(6,342)	(38,809)
As restated	78,122	579,828	-	1,167	5,590	33,430	13,210	394,285	1,105,632	333,105	1,438,737
Profit for the period (restated)	-	-	-	-	-	-	-	89,266	89,266	24,722	113,988
Issue of shares on placing (note a)	12,932	483,657	-	-	-	-	-	-	496,589	-	496,589
Share issue expenses	-	(12,628)	-	-	-	-	-	-	(12,628)	-	(12,628)
Issue of shares on exercise of share options (note b)	859	18,588	-	-	-	-	-	-	19,447	-	19,447
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	2,200	2,200
Decrease in minority interests as a result of acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	(5,433)	(5,433)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(5,839)	(5,839)
Transfer to statutory reserves (note c)	-	-	-	-	-	11,289	-	(11,289)	-	-	-
At 30 June 2004	91,913	1,069,445	-	1,167	5,590	44,719	13,210	472,262	1,698,306	348,755	2,047,061

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

Six months ended 30 June 2005

	Attributable to equity holders of the parent										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Special reserve RMB'000	Goodwill reserve RMB'000	Statutory reserves RMB'000	Property revaluation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 31 December 2004 as originally stated	91,954	1,070,309	-	1,167	5,590	44,350	57,879	641,089	1,912,338	445,956	2,358,294
Effects of changes in accounting policies	-	-	53,896	-	-	-	(37,382)	(5,648)	10,866	(7,661)	3,205
At 31 December 2004 (restated) – adjustments on 1 January 2005	91,954	1,070,309	53,896	1,167	5,590	44,350	20,497	635,441	1,923,204	438,295	2,361,499
	-	-	-	-	(5,590)	-	-	2,822	(2,768)	-	(2,768)
At 1 January 2005 (restated)	91,954	1,070,309	53,896	1,167	-	44,350	20,497	638,263	1,920,436	438,295	2,358,731
Revaluation surplus of land and buildings recognised directly in equity upon transfer to investment properties	-	-	-	-	-	-	2,985	-	2,985	-	2,985
Profit for the period	-	-	-	-	-	-	-	110,710	110,710	29,417	140,127
Total recognised income and expenses for the period	-	-	-	-	-	-	2,985	110,710	113,695	29,417	143,112
Issue of shares on exercise of share options (note b)	2,344	50,747	-	-	-	-	-	-	53,091	-	53,091
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	6,171	6,171
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(550)	(550)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(13,378)	(13,378)
Transfer to statutory reserves (note c)	-	-	-	-	-	15,369	-	(15,369)	-	-	-
At 30 June 2005	94,298	1,121,056	53,896	1,167	-	59,719	23,482	733,604	2,087,222	459,955	2,547,177

Notes:

- On 23 February 2004, 122,000,000 ordinary shares of HK\$0.10 each were issued at HK\$3.84 per share by way of placing. These shares rank pari passu with the existing shares in all respects. The net proceeds from shares issued were used as general working capital and expansion of the Group.
- On 2 March 2004, 8,100,000 ordinary shares were issued in relation to the exercise of share options. The shares were issued at an exercise price of HK\$2.265 per ordinary share. The market closing price as at that date was HK\$4.15.
On 28 February 2005, 10 June 2005 and 22 June 2005, 11,637,500, 6,525,000 and 3,950,000 ordinary shares were issued in relation to the exercise of share options respectively. The shares were issued at an exercise price of HK\$2.265 per ordinary share. The market closing prices as at 28 February 2005, 10 June 2005 and 22 June 2005 were HK\$4.325, HK\$5.35 and HK\$5.4 respectively.
- In accordance with The People's Republic of China ("PRC") regulations, the statutory reserves retained by the subsidiaries in the PRC are non-distributable.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Six months ended 30 June	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Net cash from operating activities	120,581	130,394
Net cash used in investing activities	(441,674)	(438,639)
Net cash from financing activities	299,730	624,654
(Decrease) increase in cash and cash equivalents	(21,363)	316,409
Cash and cash equivalents at beginning of period	911,537	487,129
Cash and cash equivalents at end of period	890,174	803,538
Balances of cash and cash equivalents represented by:		
Bank balances and cash	890,174	803,538

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

1. BASIS OF PREPARATION

The condensed 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 of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The entire share capital of the Company is listed on the Main Board of the Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3, which is effective for business combinations for which the agreement date is on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates/jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Business combinations

In the current period, the Group has applied HKFRS 3, "Business Combinations", which is for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves (included in goodwill reserve) of RMB1,650,000 has been transferred to the Group's accumulated profits on 1 January 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 January 2005 (of which negative goodwill of RMB7,240,000 (included in goodwill reserve) was previously recorded in reserves and of RMB4,351,000 was previously presented as a deduction from assets), with a corresponding increase to accumulated profits.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible bonds

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. Direct issue costs are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds. In subsequent periods, the liability component, including the allocated direct issue costs, is carried at amortised cost using the effective interest method. The principle impact of HKAS 32 on the Group is in relation to convertible bonds issued by the Company that contain both liability and equity components. Previously, convertible bonds were classified as liabilities and recorded at the proceeds received, net of direct issue costs on the balance sheet. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis and charged to the income statement using effective interest method over the period of the bond and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Because HKAS 32 requires retrospective application, comparative figures have been restated. Comparative profit for 2004 has been restated in order to reflect the increase in effective interest on the liability component (see Note 3 for the financial impact).

Derivatives

By 31 December 2004, the cross currency interest rate swap contracts had not been recognised on the balance sheet. The net interest expense or income arisen from the cross currency interest rate swap arrangements is included in net profit or loss for the period in which it arises as finance costs.

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

The Group has applied the relevant transitional provisions in HKAS 39. For cross currency interest rate swap contracts that are not held for hedging purposes, on 1 January 2005, the Group recognised the cross currency interest rate swaps at fair value. The difference between the previous carrying amount recognised on the balance sheet and the fair value on 1 January 2005 of RMB7,119,000, has been recognised in the Group's accumulated profits (see Note 3 for the financial impact).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect of classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Until 31 December 2004, the Group classified and measured its investment in equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, the Group classified its investments in equity securities as investment securities, which were securities held for an identified long-term strategic purpose, and were measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary. From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Available-for-sale financial assets are carried at fair value with changes in fair values recognition in equity except for those investment in equity securities that do not have quoted market price in an active market which are carried at cost less impairment as their fair value cannot be reliably measured.

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior period are as follows:

	Six months ended 30 June	
	2005 RMB'000	2004 RMB'000
Decrease in depreciation of property, plant and equipment	4,619	3,117
Amortisation of prepaid lease payments	(2,125)	(1,398)
Decrease in amortisation of goodwill	2,421	–
Decrease in release of negative goodwill to consolidated income statement	(126)	–
Increase in interest on the liability component of convertible bonds	(4,888)	–
Decrease in issue costs on the liability component of convertible bonds	114	–
Gain arising from changes in fair value of cross currency interest rate swap contracts	4,953	–
Increase in profit for the period	4,968	1,719
Attributable to:		
Equity holders of the parent	4,567	1,493
Minority interests	401	226
	4,968	1,719
Increase in basic earnings per share	0.5 cents	0.2 cents
Increase in diluted earnings per share	0.5 cents	0.2 cents

Analysis of increase in profit for the period by line items presented according to their function:

	2005 RMB'000	2004 RMB'000
Decrease in cost of sales	2,494	1,719
Decrease in other operating income	(126)	–
Decrease in other operating expenses	2,421	–
Decrease in share of results of jointly controlled entities	(3)	–
Decrease in finance costs	179	–
Decrease in taxation	3	–
	4,968	1,719

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) RMB'000	Effect of HKAS 1 and HKAS 27 RMB'000	Effect of HKAS 17 RMB'000	Effect of HKAS 32 RMB'000	As at 31 December 2004 (restated) RMB'000	Effect of HKFRS 3 RMB'000	Effect of HKAS 32 and HKAS 39 RMB'000	As at 1 January 2005 (restated) RMB'000
<u>Balance sheet items</u>								
Property, plant and equipment	2,941,594	-	(264,963)	-	2,676,631	-	-	2,676,631
Negative goodwill	(4,351)	-	-	-	(4,351)	4,351	-	-
Investments in securities	1,439	-	-	-	1,439	-	(1,439)	-
Trade and other receivables	380,995	-	-	-	380,995	-	1,439	382,434
Prepaid lease payments	-	-	200,736	-	200,736	-	-	200,736
Derivative financial instruments	-	-	-	-	-	-	(7,119)	(7,119)
Convertible bonds	(567,564)	-	-	52,702	(514,862)	-	-	(514,862)
Deferred taxation	(24,205)	-	14,730	-	(9,475)	-	-	(9,475)
Total effects on assets and liabilities	2,727,908	-	(49,497)	52,702	2,731,113	4,351	(7,119)	2,728,345
<u>Capital reserve-equity component of</u>								
convertible bonds	-	-	-	53,896	53,896	-	-	53,896
Goodwill reserve	5,590	-	-	-	5,590	(5,590)	-	-
Property revaluation reserve	57,879	-	(37,382)	-	20,497	-	-	20,497
Accumulated profits	641,089	-	(4,454)	(1,194)	635,441	9,941	(7,119)	638,263
Minority interests	-	445,956	(7,661)	-	438,295	-	-	438,295
Total effects on equity	704,558	445,956	(49,497)	52,702	1,153,719	4,351	(7,119)	1,150,951
Minority interests	445,956	(445,956)	-	-	-	-	-	-

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The Group is in the process of determining whether these new Standards or Interpretations will have any material impact on the financial statements of the Group.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

4. SEGMENT INFORMATION

The Group's primary format for reporting segment information is business segment.

For management purposes, the Group is currently divided into four divisions: gas connection, sales of piped gas, distributions of bottled liquefied petroleum gas and sales of gas appliances.

	Six months ended 30 June	
	2005 RMB'000	2004 RMB'000
Turnover		
Gas connection fees	410,962	317,452
Sales of piped gas	333,228	194,788
Distributions of bottled liquefied petroleum gas	91,566	65,082
Sales of gas appliances	17,845	9,796
	853,601	587,118
Segment result		
Gas connection fees	283,422	212,100
Sales of piped gas	62,490	50,556
Distributions of bottled liquefied petroleum gas	4,039	215
Sales of gas appliances	1,768	1,379
Unallocated depreciation and amortisation	(34,836)	(24,352)
Unallocated corporate expenses	(154,323)	(111,032)
Unallocated other operating income	16,043	14,002
Share of results of associates	(858)	(351)
Share of results of jointly controlled entities	280	(440)
Finance costs	(29,551)	(23,949)
Profit before taxation	148,474	118,128
Taxation	(8,347)	(4,140)
Profit for the period	140,127	113,988

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

5. OTHER OPERATING INCOME

	Six months ended 30 June	
	2005 RMB'000	2004 RMB'000
Other operating income include:		
Compensation income (<i>note a</i>)	16,510	17,500
Incentive subsidies (<i>note b</i>)	1,917	4,086
Income from rented premises on operating leases	1,885	1,386
Interest earned from bank deposits	2,377	1,281
Release of negative goodwill	–	125

Notes:

- a. Included in compensation income, compensation of RMB15,400,000 was granted to 長沙新奧燃氣有限公司 (“Changsha Xinao”), a subsidiary of the Company.
Pursuant to a notice of compensation issued by the relevant government authority in the PRC on 5 January 2004, Changsha Xinao is entitled to receive a compensation annually from the government authority to subsidise its coal gas operation with effect from September 2003.
- b. The amount represented refund of part of income tax as an incentive for re-investment of the profit of certain subsidiaries operated by the foreign investor, and incentive subsidies granted by the relevant government authorities in the PRC. These incentive subsidies were recorded in the period when the relevant approval was obtained.

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2005 RMB'000	2004 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Allowance for inventories	8,121	–
Amortisation of goodwill	–	2,198
Amortisation of exclusive rights of operation	264	217
Amortisation of prepaid lease payments	2,125	1,398
Depreciation of property, plant and equipment	52,381	35,656
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	3	–
Gain arising from changes in fair value of cross currency interest rate swap contracts	(4,953)	–

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

7. TAXATION

Pursuant to the relevant laws and regulations in the PRC, all the Company's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The reduced tax rate for the relief period is ranging from 7.5% to 16.5%. The charge of PRC enterprise income tax for the period has been provided for after taking these tax incentives into account.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

8. DIVIDEND

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: nil).

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended 30 June	
	2005 RMB'000	2004 RMB'000
Earnings		
Earnings for the purposes of basic earnings per share (profit for the period attributable to the equity holders of the parent)	110,710	89,266
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	8,501	–
Issue costs on convertible bonds	1,500	–
Earnings for the purposes of diluted earnings per share	120,711	89,266
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	876,349,309	828,857,692
Effect of dilutive potential ordinary shares:		
– share options	7,354,167	11,051,296
– convertible bonds	101,149,425	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	984,852,901	839,908,988

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

10. MOVEMENTS OF PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group acquired property, plant and equipment at a total cost of approximately RMB361,610,000 (six months ended 30 June 2004: RMB334,705,000).

During the period, investment properties of RMB65,641,000 were transferred from land and buildings. Revaluations surplus of RMB2,985,000 at the date of transfer was credited to property revaluation reserve.

No revaluation of land and buildings and investment properties was carried out during the period. The valuation at 31 December 2004 was carried out by Chesterton Petty Limited, a firm of professionally qualified valuers, on an open market value basis. The directors consider the carrying amount at 30 June 2005 was not significantly different from the fair value on that date.

11. INVENTORIES

Included in inventories an amount of RMB6,596,000 were carried at net realisable value. All inventories are carried at cost as at 31 December 2004.

12. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranging from 60-90 days to its trade customers.

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000
The following is an aged analysis of trade receivable:		
0-3 months	149,539	170,664
4-6 months	46,215	37,398
7-9 months	51,853	28,906
10-12 months	19,090	9,370
More than 1 year	8,110	–
Trade receivable	274,807	246,338
Prepayments, deposits and other receivables	207,286	134,657
	482,093	380,995

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

13. TRADE AND OTHER PAYABLES

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000
The following is an aged analysis of trade payable:		
0-3 months	152,151	161,640
4-6 months	48,483	33,759
7-9 months	22,647	20,175
10-12 months	7,777	8,731
More than 1 year	31,017	28,155
Trade payable	262,075	252,460
Advances received from customers	143,024	108,925
Accrued charges and other payables	99,234	121,524
	504,333	482,909

14. BANK AND OTHER LOANS

During the period, the Group obtained new bank and other loans in the amount of RMB668,800,000 (six months ended 30 June 2004: RMB460,445,000) and made repayments in the amount of RMB388,243,000 (six months ended 30 June 2004: RMB306,180,000). The loans bear interest at market rates. The proceeds were used to finance the capital expenditure and general working capital of the Group. At 30 June 2005, certain assets of the Group with aggregate carrying value of RMB112,554,000 (31 December 2004: RMB116,168,000) were pledged as security for loan facilities granted by the banks.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

15. SHARE CAPITAL

	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2005 and 30 June 2005	3,000,000,000	300,000
Issued and fully paid:		
At 1 January 2005	867,487,500	86,749
Issue of shares on exercise of share options	22,112,500	2,211
At 30 June 2005	889,600,000	88,960
		RMB'000
Presented in financial statements as:		
At 1 January 2005		91,954
Issue of shares on exercise of share options		2,344
At 30 June 2005		94,298

16. CONVERTIBLE BONDS

On 15 November 2004, the Company issued zero coupon convertible bonds ("CB") with a principal amount of HK\$550,000,000 (equivalent to approximately RMB583,000,000). The net proceeds amounted to HK\$534,205,000 (equivalent to approximately RMB566,257,000) after the deduction of issue costs of HK\$15,795,000 (equivalent to approximately RMB16,743,000). Unless previously redeemed, converted or purchased and cancelled, the CB will be redeemed at 106.43% of the principal amount on 15 November 2009. The CB can be converted into the Company's ordinary shares of HK\$0.1 each at the conversion price of HK\$5.4375 during the period from 15 December 2004 to 15 November 2009, and will be subject to adjustment for, amongst other things, subdivision or consolidation of shares, bonus issues, right issues, distribution and other dilutive events. The CB are listed on the Stock Exchange (Stock Code: 2598). Details of the issue of the CB were disclosed in the Company's announcements dated 26 October 2004 and 29 November 2004.

17. CAPITAL COMMITMENTS

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
– contracted but not provided for	24,668	22,673
– authorised but not contracted for	–	14,200

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

18. INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

During the period, the Group had made investments in associates, 東莞長安新奧燃氣有限公司 and 山東魯新天然氣有限公司, amounted to approximately RMB6,500,000 and RMB3,000,000 respectively, and contributed additional capital to a jointly controlled entity, 煙台新奧燃氣發展有限公司 amounted to approximately RMB35,789,000. These investments are made in accordance with the capital contribution shared by the Group.

19. ACQUISITION OF SUBSIDIARIES

On 1 January 2005, the Group acquired 100% of the issued share capital of 貴港新奧燃氣有限公司 for cash consideration of RMB17,268,000. This transaction has been accounting for using the purchase method of accounting.

The fair values of assets and liabilities, the amounts of which are approximate to the carrying values immediately before the acquisition of subsidiaries, acquired in the transaction are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	7,731
Inventories	912
Trade and other receivables	1,069
Prepaid lease payments	1,279
Bank balances and cash	3,522
Trade and other payables	(4,808)
Taxation payable	(1)
	9,704
Goodwill on acquisition	7,564
Total consideration	17,268
Satisfied by cash	17,268
Net cash outflow arising on acquisition:	
Cash consideration paid	(17,268)
Bank balances and cash acquired	3,522
	(13,746)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

貴港新奧燃氣有限公司 contributed RMB422,000 revenue and loss of RMB731,000 to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

On 30 June 2005, the Group acquired 85% of the issued share capital of 長沙星沙新奧燃氣有限公司 for cash consideration of RMB25,000,000 (included RMB5,000,000 was unpaid as at period ended). This transaction has been accounted for using the purchase method of accounting.

The fair values of assets and liabilities, the amounts of which are approximate to the carrying values immediately before the acquisition of subsidiaries, acquired in the transaction are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	9,898
Inventories	86
Trade and other receivables	600
Prepaid lease payments	2,700
Bank balances and cash	2,142
Trade and other payables	(693)
Taxation payable	(23)
	14,710
Attributable to minority shareholders	(2,207)
Goodwill on acquisition	12,497
Total consideration	25,000
Satisfied by cash	
– Paid	20,000
– Unpaid	5,000
	25,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(20,000)
Bank balances and cash acquired	2,142
	(17,858)

No contribution of revenue and profit was made by 長沙星沙新奧燃氣有限公司 as it was acquired as at 30 June 2005.

If the acquisition of 長沙星沙新奧燃氣有限公司 had been completed on 1 January 2005, total group revenue for the period would have been RMB856,863,000, and profit for the period would have been RMB140,005,000. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

20. RELATED PARTY TRANSACTIONS

Six months ended 30 June

Nature of transaction	Name of related party	2005 RMB'000	2004 RMB'000
Provision of gas connection service by the Group (Note i)	廊坊新城房地產開發有限公司	3,732	1,534
	北京市昌平市政經濟發展總公司 *	5	-
	安瑞科氣體機械有限公司	-	3,600
		3,737	5,134
Sales of gas by the Group (Note ii)	廊坊新奧物業管理有限公司	4,439	4,267
	東莞新奧燃氣有限公司 #	2,439	-
	廊坊新奧酒店管理有限公司	588	269
	東莞新奧莞樟燃氣有限公司 Δ	136	-
	新奧集團股份有限公司	68	76
	安瑞科蚌埠壓縮機有限公司	44	44
	廊坊新城房地產開發有限公司	36	-
	新奧置業股份有限公司	-	24
		7,750	4,680
Purchase of liquefied petroleum gas (Note ii)	海寧民泰煤氣公司 *	-	621
Purchase of compressed natural gas (Note ii)	鹽城新奧壓縮天然氣有限公司 #	10,243	-
Sales of raw materials (Note ii)	安瑞科蚌埠壓縮機有限公司	-	25
Sales of gas equipment (Note v)	東莞新奧燃氣有限公司 #	1,458	-
	湖州新奧燃氣發展有限公司 #	321	-
	1,779	-	
Lease of premises by the Group (Note iii)	新奧集團股份有限公司	869	869
	廊坊新奧物業管理有限公司	165	165
	1,034	1,034	
Lease of premises to the Group (Note iii)	海寧民泰煤氣公司 *	210	60
	海寧萬通燃氣有限公司 *	75	25
	285	85	
Provision of management services to the Group (Note iv)	廊坊新奧物業管理有限公司	691	691
Acquisition of compressed natural gas truck trailers, pressure regulating and gas equipment (Note v)	石家莊安瑞科氣體機械有限公司	33,650	-
	安瑞科(廊坊)能源裝備集成有限公司	12,100	-
	安瑞科蚌埠壓縮機有限公司	2,040	2,026
	新奧集團石家莊化工機械股份有限公司	60	24,630
	新奧集團國際經濟發展有限公司	-	605
	47,850	27,261	
Acquisition of 20% of the registered capital in 諸城新奧燃氣有限公司 (Note vi)	諸城市燃氣熱力總公司 *	-	5,000
Acquisition of land and buildings (Note vii)	常州市武進燃氣有限公司 *	706	-

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

Notes:

- (i) The provision of gas connection service was charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
 - (ii) The sales and purchases of gas and materials and repair service fee were charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
 - (iii) Rental for lease of premises was determined in accordance with the contracts entered into between the Group and the related parties.
 - (iv) The provision of management services was determined in accordance with the contract entered into between the Group and the related party.
 - (v) The consideration for acquisition of compressed natural gas truck trailers, pressure regulating and gas equipment was charged in accordance with prices by reference to the similar transactions with outsiders.
 - (vi) The consideration was arrived at after arm's length negotiations by reference to the unaudited net asset value of 諸城新奧燃氣有限公司 as at 31 December 2004.
 - (vii) The consideration for acquisition of land and buildings was determined by reference to the market value of the property.
- * minority shareholders of subsidiaries
jointly controlled entities
Δ associates

Other than those marked with symbols which are minority shareholders, jointly controlled entities and associates of the Group, the remaining related companies are controlled by Mr. Wang Yusuo, the chairman and controlling shareholder of the Company.

In the opinion of the directors of the Company, all of the above-mentioned transactions were entered into in the ordinary course of business of the Group.

21. EVENTS AFTER THE BALANCE SHEET DATE

From 2 August 2005 to 5 August 2005, various convertible bondholders with face value of HK\$57,710,000 (equivalent to approximately RMB61,173,000) submitted conversion notices to the Company. The Company issued 10,613,331 shares to the various convertible bondholders respectively in accordance with the terms and conditions of the convertible bonds and the conversion price was HK\$5.4375 per share.

On 5 August 2005, the Company issued guaranteed notes due in 2012 in the aggregate principal amount of US\$200,000,000 (equivalent to RMB1,622,400,000) at the issue price of 100%, which are unconditionally and irrevocably guaranteed by several wholly-owned subsidiaries which are primarily holding companies that operate through subsidiaries. The notes bears interest at the interest rate of 7.375% per annum and the interest is payable semi-annually.

In addition, subsequent to 30 June 2005, the Group has entered into memorandum of understanding to invest in the following company established in the PRC:

Name of company	Capital to be contributed by the Group	Proportion of nominal value of registered capital held by the Group	Principal activities
鳳陽新奧燃氣有限公司	US\$2,000,000	100%	Investment in gas pipeline infrastructure and provision of piped gas

OTHER INFORMATION

DISCLOSURE OF INTERESTS

Director's interests or short positions in shares and in share options

As at 30 June 2005, the interest and short positions of the Directors of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

Name of Director	Capacity	Interests in shares		Total interests in shares	Interests in underlying shares pursuant to share options	Aggregate interests	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests				
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	3,184,000 (Note 1)	384,486,000 (Note 2)	387,670,000	700,000	388,370,000	43.66%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	3,184,000 (Note 1)	384,486,000 (Note 2)	387,670,000	700,000	388,370,000	43.66%
Mr. Yang Yu	Beneficial owner	2,350,000	–	2,350,000	1,000,000	3,350,000	0.38%

Note:

1. The two references to 3,184,000 shares relate to the same block of shares, which are held by Mr. Wang. Ms. Zhao is the spouse of Mr. Wang and is taken to be interested in the shares held by spouse under the SFO.
2. The two references to 384,486,000 shares relate to the same block of shares. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' rights to acquire shares".

Save as disclosed above, as at 30 June 2005, the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

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Directors' rights to acquire shares

The following table discloses details of the Directors' options outstanding under the Company's share option scheme and movements during the period:

Name of Director	Date of Grant	Exercise period	Exercise Price	Number of shares subject to outstanding options as at 1 January 2005	Number of share options exercised as at 30 June 2005	Number of shares subject to outstanding options as at 30 June 2005	Approximate percentage of the Company's total issued share capital
Mr. Wang	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,300,000	(1,600,000) <i>(Note 3)</i>	700,000 <i>(Note 2)</i>	0.08%
Ms. Zhao	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,300,000	(1,600,000) <i>(Note 3)</i>	700,000 <i>(Note 2)</i>	0.08%
Mr. Yang Yu	14.02.2003	15.08.2003 – 14.02.2013	2.265	3,350,000	(2,350,000) <i>(Note 3)</i>	1,000,000	0.11%
Mr. Chen Jiacheng	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,300,000	(2,300,000) <i>(Note 3)</i>	–	0%
Mr. Zhao Jinfeng	14.02.2003	15.08.2003 – 14.02.2013	2.265	1,775,000	(1,775,000) <i>(Note 3)</i>	–	0%
Mr. Qiao Limin	14.02.2003	15.08.2003 – 14.02.2013	2.265	1,025,000	(1,025,000) <i>(Note 3)</i>	–	0%
Mr. Jin Yongsheng	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,100,000	(2,100,000) <i>(Note 3)</i>	–	0%
Mr. Yu Jianchao	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,100,000	(2,100,000) <i>(Note 3)</i>	–	0%
Mr. Cheung Yip Sang	14.02.2003	15.08.2003 – 14.02.2013	2.265	1,887,500 <i>(Note 4)</i>	(1,887,500) <i>(Note 3)</i>	–	0%
Mr. Cheng Chak Ngok	14.02.2003	15.08.2003 – 14.02.2013	2.265	450,000	(450,000) <i>(Note 3)</i>	–	0%
Total				17,287,500	(15,587,500)	1,700,000	

No share option was granted, lapsed or cancelled during the Relevant Period.

No fair value of the options granted is disclosed as in the opinion of the Directors, certain assumptions need to derive the fair values using the Black-Scholes option pricing model and these cannot be reasonably determined for such share options.

Note:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

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- The weighted average closing price per share immediately before the date on which the options were exercised was HK\$4.878.
- Out of 1,887,500 share options, 125,000 share options were granted to Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang. Mr. Cheung Yip Sang is taken to be interested in the share options held by his spouse under the SFO.

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

SUBSTANTIAL SHAREHOLDER

As at 30 June 2005, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of shareholder	Capacity	Interests in shares		Total interests in shares	Interests in underlying shares pursuant to share options	Aggregate interests	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests				
Easywin Enterprises Limited	Beneficial owner	–	384,486,000 (Note 1)	384,486,000	–	384,486,000	43.22%
Mr. Wang	Beneficial owner and interest of controlled corporation	3,184,000 (Note 2)	384,486,000 (Note 1)	387,670,000	700,000 (Note 3)	388,370,000	43.66%
Ms. Zhao	Interest of spouse and interest of controlled corporation	3,184,000 (Note 2)	384,486,000 (Note 1)	387,670,000	700,000 (Note 3)	388,370,000	43.66%
The Capital Group Companies, Inc.	Investment manager	–	61,877,000	61,877,000	–	61,877,000	6.96%
TIAA-CREF Investment Management, LLC	Investment manager	–	52,486,000	52,486,000	–	52,486,000	5.90%

Notes:

- The three references to 384,486,000 shares relate to the same block of shares. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
- The two references to 3,184,000 shares relate to the same block of shares, which are held by Mr. Wang. Ms. Zhao is the spouse of Mr. Wang and is taken to be interested in the shares held by spouse under the SFO.
- Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

Save as disclosed above, as at 30 June 2005, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2005, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

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Share Option Scheme

During the period, the Company has a share option scheme which was adopted on 14 February 2003 ("Share Option Scheme"). Each option gives the holder the right to subscribe for one share of the Company. Movements of the share options during the Relevant Period are as follows:

Name	Date of Grant	Exercise period	Exercise Price	Number of shares subject to outstanding options as at 1 January 2005	Number of share options exercised as at 30 June 2005	Number of shares subject to outstanding options as at 30 June 2005	Approximate percentage of the Company's total issued share capital
Director							
Mr. Wang	14.02.2003 (Note 3)	15.08.2003 – 14.02.2013	2.265	2,300,000	(1,600,000) (Note 4)	700,000 (Note 2)	0.08%
Ms. Zhao	14.02.2003 (Note 3)	15.08.2003 – 14.02.2013	2.265	2,300,000	(1,600,000) (Note 4)	700,000 (Note 2)	0.08%
Mr. Yang Yu	14.02.2003 (Note 3)	15.08.2003 – 14.02.2013	2.265	3,350,000	(2,350,000) (Note 4)	1,000,000	0.11%
Mr. Chen Jiacheng	14.02.2003 (Note 3)	15.08.2003 – 14.02.2013	2.265	2,300,000	(2,300,000) (Note 4)	–	0%
Mr. Zhao Jinfeng	14.02.2003 (Note 3)	15.08.2003 – 14.02.2013	2.265	1,775,000	(1,775,000) (Note 4)	–	0%
Mr. Qiao Limin	14.02.2003 (Note 3)	15.08.2003 – 14.02.2013	2.265	1,025,000	(1,025,000) (Note 4)	–	0%
Mr. Jin Yongsheng	14.02.2003 (Note 3)	15.08.2003 – 14.02.2013	2.265	2,100,000	(2,100,000) (Note 4)	–	0%
Mr. Yu Jianchao	14.02.2003 (Note 3)	15.08.2003 – 14.02.2013	2.265	2,100,000	(2,100,000) (Note 4)	–	0%
Mr. Cheung Yip Sang	14.02.2003 (Note 3)	15.08.2003 – 14.02.2013	2.265	1,887,500 (Note 5)	(1,887,500) (Note 4)	–	0%
Mr. Cheng Chak Ngok	14.02.2003 (Note 3)	15.08.2003 – 14.02.2013	2.265	450,000	(450,000) (Note 4)	–	0%
Aggregate total of employees	14.02.2003 (Note 3)	15.08.2003 – 14.02.2013	2.265	6,525,000	(6,525,000) (Note 4)	–	0%

No share option was granted, lapsed or cancelled during the Relevant Period.

No fair value of the options granted is disclosed as in the opinion of the Directors, certain assumptions need to derive the fair values using the Black-Scholes option pricing model and these cannot be reasonably determined for such share options.

Note:

- The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.
- On 14 February 2003, the Directors had granted options to subscribe for an aggregate of 32,300,000 shares of the Company under the share option scheme, out of which 19,250,000 share options were granted to the Directors and 13,050,000 share options were granted to the employees of the Group. As at 30 June 2005, 30,600,000 share options were exercised, of which 17,550,000 share options were granted to Directors and 13,050,000 share options were granted to employees. There are 1,700,000 share options outstanding, representing approximately 0.19% of the total issued capital of the Company as at 30 June 2005.
- The weighted average closing price per share immediately before the date on which the options were exercised was HK\$4.878.
- Out of 1,887,500 share options, 125,000 share options were granted to Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang. Mr. Cheung Yip Sang is taken to be interested in the share options held by his spouse under the SFO.

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PURCHASE, SALE OF REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters. Members of the Audit Committee are Mr. Wang Guangtain, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau, who are all independent non-executive Directors. An audit committee meeting was held in September 2005 to review the unaudited interim financial report for the six months ended 30 June 2005. Deloitte Touche Tohmatsu, the Group's external auditors, have carried out a review of the unaudited interim financial report for the six months ended 30 June 2005 in accordance with the Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. An unmodified review report was issued subsequent to the review.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding Director's securities transactions on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the Relevant Period.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

To the knowledge of the Board, the Company has complied with the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Listing Rules during the Relevant Period, and there have been no material deviations from the Code.

LOAN AGREEMENTS IMPOSING SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDERS

The Company has entered into three loan agreements which require Mr. Wang Yusuo, the controlling shareholder of the Company, to retain his control over the Company throughout the term of the three loan agreements, which are 3 years, 3 years and 5 years from 16 September 2002, 22 August 2003 and 18 May 2004 respectively. The total amount of the loans involved is US\$80,000,000 (equivalent to RMB661,440,000).

The Company issued 7 year bonds on 5 August 2005 and the terms and conditions of the bonds require Mr. Wang Yusuo, the controlling shareholder of the Company, to retain control over the Company throughout the term of the bonds. The total amount of the loan involved is US\$200,000,000 (equivalent to RMB1,622,400,000).

INTERESTS IN COMPETITORS

During the six months ended 30 June 2005, none of the Directors or the management shareholders of the Company or their respective associates had an interest in a business which competes or may compete with the business of the Group.

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 21 September 2005



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