

XINAO GAS HOLDINGS LIMITED

interim report 2008

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02 FINANCIAL AND OPERATIONAL HIGHLIGHTS

XinAo Gas Holdings Limited

Dear Shareholders,

The Board of Directors (the “Directors”) of XinAo Gas Holdings Limited (the “Company”, and together with its subsidiaries, the “Group”) is pleased to announce that the unaudited profit attributable to equity holders of the Company for the six months ended 30 June 2008 (the “Period”) was RMB285,999,000, representing an increase of RMB110,502,000 or 63.0% as compared to RMB175,497,000 for the corresponding period last year.

Financial and Operational Highlights

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

	Six months ended 30 June		
	2008 (Unaudited)	2007 (Unaudited and restated)	Increase (Decrease)
Revenue (RMB)	3,537,968,000	2,309,610,000	53.2%
Gross profit (RMB)	947,626,000	765,831,000	23.7%
Profit attributable to equity holders of the Company (RMB)	285,999,000	175,497,000	63.0%
Earnings per share – Basic (RMB)	28.3 cents	17.9 cents	58.1%
Connectable urban population	40,469,000	39,417,000	2.7%
Connectable residential households	13,490,000	13,139,000	2.7%
New natural gas connections made during the Period:			
– residential households	285,158	225,606	26.4%
– commercial/industrial (“C/I”) customers	910	837	8.7%
– installed designed daily capacity for C/I customers (m ³)	1,136,349	809,581	40.4%
Accumulated number of connected natural gas customers:			
– residential households	2,887,114⁽¹⁾	2,335,758 ⁽²⁾	23.6%
– C/I customers (sites)	8,685⁽¹⁾	6,639 ⁽²⁾	30.8%
– installed designed daily capacity for C/I customers (m ³)	7,639,664⁽¹⁾	5,183,417 ⁽²⁾	47.4%
Accumulated number of connected piped gas (including natural gas) customers:			
– residential households	3,313,919	2,751,582	20.4%
– C/I customers (sites)	9,379	7,280	28.8%
– installed designed daily capacity for C/I customers (m ³)	8,315,765	5,844,882	42.3%
Natural gas penetration rate	21.4%	17.8%	–
Piped gas (including natural gas) penetration rate	24.6%	20.9%	–
Unit of piped gas sold to residential households (m ³)	220,756,000	183,188,000	20.5%
Unit of piped gas sold to C/I customers (m ³)	879,389,000	719,771,000	22.2%
Unit of gas sold to vehicles (m ³)	131,297,000	77,564,000	69.3%
Unit of bottled liquefied petroleum gas (“LPG”) sold (ton)	219,651	36,422	5.0 times
Number of vehicle refuelling stations	98	72	26
Number of natural gas processing stations	86	77	9
Total length of existing intermediate and main pipelines (km)	11,704	10,058	16.4%

Notes:

1. Including a total of 623,900 natural gas residential customers and 1,526 natural gas C/I customers (with a total designed daily capacity of 831,451 m³) from acquisition/conversion.
2. Including a total of 695,591 natural gas residential customers and 1,582 natural gas C/I customers (with a total designed daily capacity of 868,146 m³) from acquisition/conversion.

BUSINESS REVIEW

Pipeline Construction

During the Period, gas connection fee revenue reached RMB898,314,000, representing an increase of 15.6% over the corresponding period last year and accounting for 25.4% of the total revenue. The average connection fees for residential households and commercial/industrial ("C/I") customers were RMB2,397 and RMB192 (per m³) respectively. As compared to the figure in 2007, the average connection fees for residential households remained at the same level during the Period, which reveals that China maintains a stable policy over connection fees. On the other hand, the Group provided special offers on gas connection fee to C/I customers in order to boost the gas sales.

Taking advantage of its industry experience and good management, the Group achieved sustained growth in the number of new connections. The new piped natural gas connections made to residential households and the designed daily capacity for C/I customers newly installed during the Period increased by 26.4% and 40.4% respectively as compared to the corresponding period last year.

Expected to come into full operation next year, the liquefied natural gas ("LNG") terminal in Fujian Province has now begun supplying natural gas in spot market. As a result, the gas supply for the Group's seven projects in the Fujian province, including the large industrial base gas project in Quanzhou city, will be further secured. In addition, the production of the coal conversion project in Erdos, Inner Mongolia, an upstream project with the Group's participation, will be commenced next year. The sufficient gas supply will facilitate more connections to both residential and C/I customers and strengthen the Group with stable and long-term revenue.

Gas Sales

During the Period, piped gas sales revenue reached RMB1,476,991,000, representing an increase of 20.7% over the corresponding period last year and accounting for 41.7% of the total revenue. The sales volume of piped gas also increased by 21.8%.

Piped gas sales continue to accelerate annually, contributing over 40.0% of the revenue. This shows that the Group has a more stable and long-term revenue base. The further decrease in reliance on one-off connection fee leads to a more enhanced revenue structure. On the other hand, the number of vehicle refuelling stations ("refuelling stations") has further increased from 89 as at the end of 2007 to 98, whilst the number of refuelling stations that have been completed but not yet come into operation was 11. As a result, the gas sales to vehicles increased by 1.2 times. Thanks to its contribution to environmental protection and significant advantage over prices, natural gas refuelling stations which provide clean energy as a substitute for gasoline is expected to experience rapid growth continuously. The Group can take advantage of the existing gas source in the refuelling station business, as well as increase the economies of scale for the gas projects on hand. It is expected that the refuelling station business will become one of the major catalysts for the increase in the Group's gas sales revenue in the long run. We also expect that the official launch of the LNG terminal in Fujian Province and the coal conversion project in Inner Mongolia will further strengthen the gas sources and in turn contributing to the Group's gas sales.

During the Period, sales revenue from bottled liquefied petroleum gas ("LPG") increased 4.7 times as compared to the corresponding period last year, reaching RMB864,479,000, which accounts for 24.4% of the total revenue. The continuous expansion of the bottled LPG sales network further strengthens the customer base of the Group.

Gross and Net Profit Margins

During the Period, the overall gross profit margin and net profit margin (after minority interests) of the Group were 26.8% and 8.1% respectively. As compared to the corresponding period last year, the gross profit margin decreased while the net profit margin increased.

The decrease in gross profit margin mainly comes from the continuous improvement in the Group's revenue structure. The major source of the Group's revenue is continuously shifting from higher margin one-off connection fee to relatively lower margin long-term piped gas and LPG sales. The share of connection fee over total revenue has fallen from 33.6% to 25.4% against the same period last year, whereas, the overall gas sales revenue has increased immensely from 64.6% to 73.5%. It reveals the realisation of the Group's strategy to focus on raising the penetration rate of existing gas projects whilst reducing the acquisition of new projects. The Group still maintained a rapid growth along with its strategy.

The increase in net profit margin is mainly attributable to the effective cost control by the Group which leads to a further decrease in the proportion of administrative expenses over revenue. During the Period, the Group did not record any of the one-off non-cash expenses incurred last year such as the fair value changes on derivative financial instruments and convertible bonds and the impairment loss on goodwill.

New Projects

During the Period, the Group secured the following three new piped gas projects:

Province	City	Connectable urban population
Guangdong	Zhaoqing	500,000
Guangdong	Zengcheng	100,000
Fujian	Quangang	120,000

Together with the newly acquired piped gas projects, the Group has increased the total number of city gas projects to 71, with the connectable urban population raised to 40,469,000 (representing about 13,490,000 households). The Group stuck to its existing strategy of acquiring peripheral towns and cities near the existing gas projects, which could fortify the economies of scale for existing gas projects. For example, the new project Quangang is very near to the urban area of Quanzhou, one of our existing gas projects. With only several kilometers apart, the acquisition of Quangang can further enhance the economies of scale of the Quanzhou project. Moreover, following the acquisition of Zhaoqing Development Zone, the Group has secured the urban area of Zhaoqing as well during the Period. Since it is expected that Zhaoqing city will be covered by the Second West-East Pipeline which is currently under construction, sufficient gas supply for this city can be guaranteed.

Currently, the Group has an overall gas penetration rate of 24.6% only, and from the Group's past experience, the gas penetration rates can reach as high as 70% to 80%. In association with the economic growth in China, the demand for natural gas from C/I customers is growing continuously. The Group is still at the rapid development stage in its connection and gas sales business to residential and C/I customers, which provides good revenue protection in the future.

Human Resources

As at 30 June 2008, the total number of staff employed by the Group was 15,119, of which eight were based in Hong Kong. The number of staff increased by 2.2% as compared to last year end to cope with various new projects obtained by the Group. The staff was remunerated at the market level with benefits such as bonus, retirement benefit and share option scheme.

FINANCIAL RESOURCES REVIEW

Liquidity and Financial Resources

As at 30 June 2008, the Group's cash on hand was equivalent to RMB2,126,918,000 (31 December 2007: RMB1,693,459,000), and its total debts amounted equivalent to RMB5,787,663,000 (31 December 2007: RMB5,054,324,000). Its net gearing ratio, i.e. the ratio of net debt to equity (excluding minority interests), was 93.7% (31 December 2007: 90.0%).

Under the US\$25,000,000 Loan Agreements with International Finance Corporation ("IFC"), the private sector arm of the World Bank Group, and the subsequent amendment on the requirement thereafter, 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, all being 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 of Xinao Group International Investment Limited ("XGII"), indirectly through XGII, at least 27% of the issued share capital of the Company. Mr. Wang and Ms. Zhao are the beneficial and legal owners of XGII, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. As at 30 June 2008, XGII and Mr. Wang together held 33.24% interests of the Company.

Five-year Zero Coupon Convertible Bonds

The Company issued five-year convertible bonds ("CB" or "CBs") in an aggregate principal amount of HK\$550,000,000 on 15 November 2004. The CBs are zero coupon bonds; the issue price is 100% whereas the redemption price is 106.43%, which means that the effective interest rate is 1.25% per annum. All bondholders have exercised the conversion right in May 2007 and convert the CBs into ordinary shares of HK\$0.10 each of the Company. The conversion price for each ordinary share at the issue date of the CBs was HK\$5.4375. There were no outstanding CBs which had not been converted.

Seven-year 7.375% Fixed Rate Bonds

On 5 August 2005, the Company issued 7-year bonds in the aggregate principal amount of US\$200,000,000 (equivalent to RMB1,614,040,000) with issue price and redemption 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 their subsidiaries. The coupon of the bonds is 7.375%, and interests are paid semi-annually.

Currently, the Group's operating and capital expenditures are funded by operating cash flow, internal liquidity, bank loans and issued bonds. The Group has sufficient sources of funds and unutilised banking facilities to meet the future capital expenditure and working capital requirements for its existing projects.

Borrowings Structure

As at 30 June 2008, the Group's total debts amounted equivalent to RMB5,787,663,000 (31 December 2007: RMB5,054,324,000), including loans and bonds of US\$210,000,000 (equivalent to RMB1,440,411,000) and mortgage loans of HK\$143,641,000 (equivalent to RMB126,285,000). Apart from the US\$200,000,000 bonds and RMB1,000,000,000 short-term commercial notes which are fixed coupons, other US dollar loans and HK dollar mortgage loans bear interest at floating rates, and the remaining bank and other borrowings are denominated in Renminbi and bear the interest rates announced by the People's Bank of China. The project companies used the Renminbi loans as their working capital and operational expenditure. Except for the loan amount equivalent to RMB1,951,593,000 that are secured by assets with the carrying amount equivalent to RMB125,752,000, all of the other loans are unsecured. Short-term loans were equivalent to RMB2,037,924,000 while the remaining were long-term loans falling due after one year or above.

As all the operations of the Group are in the PRC, revenues and expenses were mainly denominated in Renminbi. Hence, there were no significant foreign exchange exposures or risks. The Group will monitor the market trends of interest rates closely and adopt appropriate measures when necessary.

Financial Guarantee Liability

As at 30 June 2008, the Group had issued guarantees to banks to secure loan facilities granted to associates to the extent of RMB48,000,000 (31 December 2007: RMB43,000,000). No guarantee is issued in respect of any loan facilities granted to the jointly controlled entities of the Group (31 December 2007: RMB40,000,000). The amounts have been utilized at the balance sheet date.

Capital Commitment

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment	88,454	121,024

PROSPECTS

In recent years, the Group reached the critical mass in terms of the number of gas projects and the connectable population in China, and this enables the Group to selectively acquire high-quality new piped gas projects, boost the gas penetration rates of our existing gas projects, develop the business of compressed natural gas (as a substitute of gasoline) refuelling stations that can increase long-term natural gas sales, as well as develop the energy distribution channels in peripheral towns and cities of our gas projects, so as to achieve sustainable business expansion. The strategic adjustments have been duly executed. During the first half of 2008, overall gas sales have made up 73.5% of the Group's revenue, whilst the share of one-off connection fee has further declined to 25.4%. This leads the Group's way to develop into a real utilities company gradually with good and stable cash flow.

With the considerable growth in the Group's gas sales volume, secured gas supply is of utmost importance. In addition to the expected official launch of the LNG import terminal in Putian, Fujian Province early next year, the construction of the Second West-East Pipeline and Sichuan-East Pipeline connecting the eastern and western region of China has also been kicked off. As a result, the gas supply for the Group's piped natural gas projects, in particular those in Guangdong, Guangxi, Fujian and Zhejiang, will be fundamentally secured.

On the other hand, since the coal conversion project in Erdos, Inner Mongolia, which is one of the Group's upstream investments, is expected to come into production next year, the Group will be able to make use of DME, a kind of clean energy, to substitute part of the LPG directly and thereby reducing the cost of gas supply. The gas sources will thus be further diversified with increased flexibility in supply.

The rapid growth in the Chinese economy has exerted great pressure on its energy resources and environment. The high energy consumption along with economic development and the excessive emission of pollutants and greenhouse gas have also imposed a serious threat to the continuous development of the economy and society. Thanks to the decrease in cost and increase in energy consumption efficiency because of the improvement of technology, and enhancement in the public awareness of environmental protection, clean energy has now gained wider recognition in the society. After years of excellent operation, the Group has established a strong brand identity and extensive customer resources. It has also taken a proactive stance to formulate new business model while establishing a distribution model which is advantageous in various aspects through the provision of comprehensive regional clean energy solution. As of to-date, the Group has entered into a cooperation framework agreement in relation to energy saving and emission reduction with about eight cities including Luoyang, Zhuzhou and Fuzhou for the purpose of providing comprehensive clean energy solutions to such cities, parks and enterprises, promoting the use of clean energy, enhancing the utilisation efficiency of energy and reducing emission. This enables the Group to, besides becoming a provider of comprehensive regional clean energy and energy saving solutions, enhance its earnings and earnings basis and develop the long-term continuous growing ability on the basis of the existing sustained growth of natural gas connections and sales, eventually making significant contribution to the continuous, healthy development of the society and economy in respect of energy resources.

The Group has long been putting great emphasis on long-term sustainable development. In addition to expanding business and exploring gas sources, special importance has also been placed on management. This can be revealed by the Group's implementation of the Enterprise Resource Planning ("ERP") system for the purpose of enhancing internal resources utilisation and strengthening internal control.

As for the macro environment, the Chinese government has devoted a great deal of effort in promoting the use of clean energy, substitute energy and renewable energy and therefore constructing more long distance pipelines. With such strong support from the government, and complemented by the Group's vigorous development of upstream and downstream projects, sound management and effective use of resources, we believe that, besides making contribution to environmental protection, the benefits of all shareholders, employees and society will also be maximised at the same time.

Deloitte.

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INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF XINAO GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 10 to 30, which comprise the condensed consolidated balance sheet of XinAo Gas Holdings Limited as of 30 June 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

18 September 2008

10 CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

XinAo Gas Holdings Limited

Six months ended 30 June

		2008 (unaudited) RMB'000	2007 (unaudited and restated) RMB'000
	NOTES		
Revenue	3	3,537,968	2,309,610
Cost of sales		(2,590,342)	(1,543,779)
Gross profit		947,626	765,831
Other income	4	133,969	93,214
Selling expenses		(56,490)	(32,450)
Administrative expenses		(437,717)	(357,599)
Fair value changes on derivative financial instruments		-	(6,377)
Fair value changes on convertible bonds		-	(3,370)
Impairment loss on goodwill	5	-	(50,605)
Share of results of associates		9,029	(3,812)
Share of results of jointly controlled entities		63,006	22,679
Finance costs	6	(184,290)	(106,409)
Profit before taxation	7	475,133	321,102
Taxation	8	(96,769)	(69,620)
Profit for the period		378,364	251,482
Attributable to:			
Equity holders of the Company		285,999	175,497
Minority interests		92,365	75,985
		378,364	251,482
Interim dividend	9	-	-
Earnings per share	10		
Basic		28.3 cents	17.9 cents
Diluted		27.7 cents	17.8 cents

11 CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

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	NOTES	At 30 June 2008 (unaudited) RMB'000	At 31 December 2007 (audited) RMB'000
Non-current assets			
Property, plant and equipment	11	7,163,159	6,760,741
Prepaid lease payments	11	476,715	432,479
Investment properties	11	76,027	94,450
Goodwill		153,630	153,630
Intangible assets	12	476,318	469,504
Interests in associates	13	335,086	386,111
Interests in jointly controlled entities	13	544,382	483,672
Available-for-sale investments		13,967	13,733
Loan receivable	14	15,000	–
Amount due from an associate	15	112,000	138,000
Amount due from a jointly controlled entity	15	20,000	89,000
Deposits paid	16	88,960	24,533
		9,475,244	9,045,853
Current assets			
Inventories		277,228	235,356
Trade and other receivables	17	1,112,548	1,069,957
Prepaid lease payments	11	9,582	9,026
Amounts due from customers for contract work		400,286	335,910
Amounts due from associates	15	65,765	48,585
Amounts due from jointly controlled entities	15	216,493	68,719
Amounts due from related companies		52,837	43,273
Cash and cash equivalents		2,126,918	1,693,459
		4,261,657	3,504,285
Non-current assets classified as held for sale	13	76,977	–
		4,338,634	3,504,285
Current liabilities			
Trade and other payables	18	2,426,966	2,205,060
Amounts due to customers for contract work		377,734	305,644
Amounts due to associates		93,140	116,411
Amounts due to jointly controlled entities		44,777	30,234
Amounts due to related companies	19	78,248	29,779
Taxation payable		16,819	35,846
Bank and other loans – due within one year	20	1,038,574	834,779
Short-term debentures	21	999,350	398,375
Financial guarantee liability		660	1,353
		5,076,268	3,957,481
Net current liabilities		(737,634)	(453,196)
Total assets less current liabilities		8,737,610	8,592,657

**12 CONDENSED CONSOLIDATED
BALANCE SHEET** *(continued)*
At 30 June 2008

XinAo Gas Holdings Limited

	At 30 June 2008 (unaudited) RMB'000	At 31 December 2007 (audited) RMB'000
NOTES		
Capital and reserves		
Share capital	106,318	106,318
Reserves	3,800,422	3,629,229
Equity attributable to equity holders of the Company	3,906,740	3,735,547
Minority interests	948,685	925,111
Total equity	4,855,425	4,660,658
Non-current liabilities		
Bank and other loans – due after one year	20 2,400,750	2,387,513
Guaranteed notes	22 1,348,989	1,433,657
Deferred taxation	8 132,446	110,829
	3,882,185	3,931,999
	8,737,610	8,592,657

13 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

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Six months ended 30 June 2008

	Attributable to equity holders of the Company									
	Share capital	Share premium	Special reserve	Share option reserve	Statutory surplus reserve fund (note a)	Property revaluation reserve	Accumulated profits	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008 (audited)	106,318	1,893,039	(18,374)	53,878	157,891	24,688	1,518,107	3,735,547	925,111	4,660,658
Profit for the period and total recognised income and expenses for the period	-	-	-	-	-	-	285,999	285,999	92,365	378,364
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	43,277	43,277
Acquisition of business (Note 25)	-	-	-	-	-	-	-	-	1,389	1,389
Deemed acquisition of additional interest in a subsidiary (note b)	-	-	-	-	-	-	-	-	(1,294)	(1,294)
Dividend appropriation	-	-	-	-	-	-	(119,136)	(119,136)	-	(119,136)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(112,163)	(112,163)
Recognition of equity-settled share-based payments	-	-	-	4,330	-	-	-	4,330	-	4,330
Transfer to statutory surplus reserve fund	-	-	-	-	20,795	-	(20,795)	-	-	-
At 30 June 2008 (unaudited)	106,318	1,893,039	(18,374)	58,208	178,686	24,688	1,664,175	3,906,740	948,685	4,855,425

14 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

XinAo Gas Holdings Limited

For the six months ended 30 June 2008

Six months ended 30 June 2007

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Statutory surplus reserve fund RMB'000 (note a)	Property revaluation reserve RMB'000	Investment revaluation reserve RMB'000 (note c)	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2007 (audited)	102,825	1,628,476	1,167	57,370	83,263	21,514	(444)	1,162,489	3,066,660	811,768	3,868,428
Effect of change in tax rate on deferred tax liability relating to property revaluation	-	-	-	-	-	1,119	-	-	1,119	613	1,732
Gain on fair value change of available-for-sale investments	-	-	-	-	-	-	4,718	-	4,718	-	4,718
Net income recognised directly in equity	-	-	-	-	-	1,119	4,718	-	5,837	613	6,450
Transfer to profit or loss on sales of available-for-sale investments	-	-	-	-	-	-	(193)	-	(193)	-	(193)
Profit for the period	-	-	-	-	-	-	-	175,497	175,497	75,985	251,482
Total recognised income and expenses for the period	-	-	-	-	-	1,119	4,525	175,497	181,141	76,598	257,739
Issue of shares on conversion of convertible bonds	1,638	125,600	-	-	-	-	-	-	127,238	-	127,238
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	3,600	3,600
Issue of shares on exercise of share options	171	3,698	-	-	-	-	-	-	3,869	-	3,869
Acquisition of additional interest in a subsidiary	-	-	(20,737)	-	-	-	-	-	(20,737)	(8,017)	(28,754)
Dividend appropriation	-	-	-	-	-	-	-	(77,274)	(77,274)	-	(77,274)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(63,892)	(63,892)
Recognition of equity-settled share-based payments	-	-	-	11,059	-	-	-	-	11,059	-	11,059
Transfer to statutory surplus reserve fund	-	-	-	-	27,655	-	-	(27,655)	-	-	-
At 30 June 2007 (unaudited)	104,634	1,757,774	(19,570)	68,429	110,918	22,633	4,081	1,233,057	3,281,956	820,057	4,102,013

Notes:

- In accordance with the People's Republic of China ("PRC") regulations, the statutory surplus reserves fund retained by the subsidiaries in the PRC are non-distributable.
- During the six months ended 30 June 2008, 石家庄新奥燃气有限公司, a 60% owned subsidiary of the Company, disposed of the 65% equity interest held in another subsidiary of the Company, 石家庄新奥车用燃气有限公司 to a wholly-owned subsidiary of the Company, 新奥燃气发展有限公司. Upon the completion of the transaction, the effective interest in 石家庄新奥车用燃气有限公司 increased from 39% to 65% and gain on deemed acquisition of additional interest in a subsidiary amounting to RMB1,294,000 was recognised in the income statement during current period.
- The investment revaluation reserve arose from changes in fair value of available-for-sale investments that were carried at fair value. The investment revaluation reserve was transferred to profit or loss upon disposal of the related available-for-sale investment carried at fair value subsequent to 30 June 2007.

15 CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

interim report 2008

	Six months ended 30 June	
NOTES	2008 (unaudited) RMB'000	2007 (unaudited) RMB'000
Net cash from operating activities	546,884	304,259
Investing activities		
Dividends received from jointly controlled entities	6,237	24,500
Dividends received from associates	1,123	-
Purchase of property, plant and equipment	(609,022)	(670,078)
Purchase of prepaid lease payments	(35,023)	(21,286)
(Increase) decrease in deposits paid for establishment of joint ventures	(51,555)	412
Deposit paid for acquisition of land use rights	(8,000)	-
Deposit paid for acquisition of rights of operation	(5,272)	-
Deposit received for disposal of an associate	75,000	-
Acquisition of intangible assets	(2,000)	-
Acquisition of businesses	25 (16,153)	(119,694)
Investments in associates	(18,000)	(60,100)
Investments in jointly controlled entities	(50,040)	-
Proceeds on disposal of property, plant and equipment	30,427	2,427
Proceeds on disposal of land use rights	2,520	-
Proceeds on disposal of investment property	-	3,304
Increase in loan receivable	(15,000)	-
Amount advanced to an associate	-	(20,000)
Amount advanced to a jointly controlled entity	-	(20,000)
Other investing activities	(592)	(286)
Net cash used in investing activities	(695,350)	(880,801)
Financing activities		
Interest paid on guaranteed notes	(52,605)	(52,002)
Proceeds from issuance of short-term debentures	600,000	-
Contribution from minority shareholders	43,277	3,600
Dividends paid to minority shareholders	(112,163)	(63,892)
Dividends paid to shareholders	(119,136)	(77,274)
New bank loans raised	797,896	988,000
Repayment of bank loans	(575,344)	(357,424)
Proceeds from shares issued	-	3,869
Net cash from financing activities	581,925	444,877
Increase (decrease) in cash and cash equivalents	433,459	(131,665)
Cash and cash equivalents at the beginning of the period	1,693,459	1,567,552
Cash and cash equivalents at the end of the period	2,126,918	1,435,887
Balances of cash and cash equivalents represented by:		
Bank balances and cash	2,126,918	1,435,887

16 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

XinAo Gas Holdings Limited

1. Basis of Preparation

The condensed consolidated financial statements (the “Interim 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 Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

In preparing the Interim Financial Statements, the directors of the Company (the “Directors”) have given careful consideration of the Company and its subsidiaries (collectively the “Group”) in light of its net current liabilities of RMB737,634,000 as at 30 June 2008. On the basis that the Group has secured credit facilities of approximately RMB1,521,000,000 which remains unutilised at the date of approval of the Interim Financial Statements, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the Interim Financial Statements have been prepared on a going concern basis.

2. Principal Accounting Policies

The Interim Financial Statements have been prepared on the historical cost basis except for certain properties, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations (“new interpretations”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2008.

HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

2. Principal Accounting Policies (continued)

- ¹ Effective for annual periods beginning on or after 1 January 2009
- ² Effective for annual periods beginning on or after 1 July 2009
- ³ Effective for annual periods beginning on or after 1 July 2008
- ⁴ Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The Directors anticipate that the application of the other new or revised standards or interpretations will have no material impact on the results and the financial position of the Group.

3. Segment Information

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

In the prior period, the Group divided its operations into four divisions namely gas connection, sales of piped gas, distributions of bottled liquefied petroleum gas and sales of gas appliances. The results relating to the vehicles gas refuelling stations operation was previously combined with the sales of piped gas division. Having considered the rapid growth in the vehicles gas refuelling stations operation, the Directors consider this segment will be distinct from that of the sales of piped gas division and accordingly, the results of vehicles gas refuelling stations were disclosed under a separate segment in the current period and the comparative figures of this segment for the six months ended 30 June 2007 has also been restated.

Six months ended 30 June 2008

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Vehicles gas refuelling stations RMB'000	Consolidation RMB'000
Revenue	898,314	1,476,991	864,479	35,327	262,857	3,537,968
Segment result before depreciation and amortisation	554,074	406,924	10,581	10,927	77,001	1,059,507
Depreciation and amortisation	(23,581)	(80,437)	(2,017)	(939)	(4,801)	(111,775)
Segment result	530,493	326,487	8,564	9,988	72,200	947,732
Unallocated other income						133,863
Unallocated corporate expenses						(494,207)
Share of results of associates (Note)						587,388
Share of results of jointly controlled entities (Note)						9,029
Finance costs						63,006
						(184,290)
Profit before taxation						475,133
Taxation						(96,769)
Profit for the period						378,364

3. Segment Information (continued)

Note: The share of results of associates and jointly controlled entities are attributable to:

	Share of results of	
	Associates	Jointly controlled entities
	RMB'000	RMB'000
Gas connection	1,601	39,956
Sale of piped gas	716	28,095
Distributions of bottled liquefied petroleum gas	-	(3,939)
Sale of gas appliances	-	(263)
Vehicles gas refuelling stations	713	(290)
Other businesses not classified as a business segment	5,999	(553)
	9,029	63,006

Six months ended 30 June 2007

	Gas connection	Sales of piped gas	Distributions of bottled liquefied petroleum gas	Sales of gas appliances	Vehicles gas refuelling stations	Consolidation
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	776,937	1,223,209	152,238	39,955	117,271	2,309,610
Segment result before depreciation, amortisation and impairment						
loss on goodwill	582,583	240,041	5,362	10,672	27,836	866,494
Depreciation and amortisation	(13,106)	(80,788)	(2,150)	(752)	(745)	(97,541)
Impairment loss on goodwill	(50,605)	-	-	-	-	(50,605)
Segment result	518,872	159,253	3,212	9,920	27,091	718,348
Unallocated other income						90,091
Unallocated corporate expenses						(399,795)
Share of results of associates (Note)						408,644
Share of results of jointly controlled entities (Note)						(3,812)
Finance costs						22,679
						(106,409)
Profit before taxation						321,102
Taxation						(69,620)
Profit for the period						251,482

3. Segment Information (continued)

Note: The share of results of associates and jointly controlled entities are attributable to:

	Share of results of	
	Associates	Jointly controlled entities
	RMB'000	RMB'000
Gas connection	461	19,659
Sale of piped gas	(554)	3,020
Vehicles gas refuelling stations	2,174	–
Other businesses not classified as a business segment	(5,893)	–
	(3,812)	22,679

4. Other Income

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000 (restated)
Other income includes:		
Exchange gain, net (note a)	87,391	44,310
Gain on disposal of investment properties	–	625
Gain on disposal of prepaid lease payment	1,008	–
Gain on disposal of available-for-sale investments	–	193
Incentive subsidies (note b)	13,001	17,670
Income from conversion of fuel pipes of vehicles	21	739
Income from rented premises under operating leases	1,524	1,811
Interest earned from bank deposits	7,063	12,676
Interest income on loan to associates	4,810	2,648
Interest income on loan to jointly controlled entities	2,868	2,345
Interest income on loan to minority shareholders with significant influence	781	–
Miscellaneous sales	2,820	1,582
Repairs and maintenance income	2,484	2,821

Notes:

- a. Included in the balance is an amount of RMB89,100,000 (six months ended 30 June 2007: RMB40,240,000) which is the exchange gain arising from the conversion of guaranteed notes denominated in US dollar as set out in Note 22.
- b. The amount represents 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.

5. Impairment Loss on Goodwill

During the six months ended 30 June 2007, the Directors had conducted a review of the carrying value of goodwill. As a result of the continuing under-performance of the businesses, an aggregate amount of RMB50,605,000 in respect of goodwill arising from acquisition of 金華新奧燃氣有限公司 and 湛江新奧燃氣有限公司, representing cash generating units under gas connection division was identified to be fully impaired and the corresponding impairment losses were recognised in the consolidated income statement for the six months ended 30 June 2007. In the opinion of the Directors, no impairment loss on goodwill was required to be recognised for the six months ended 30 June 2008.

6. Finance Costs

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Interest on:		
Bank and other loans wholly repayable within five years	43,026	33,921
Bank loans not wholly repayable within five years	77,398	55,453
Guaranteed notes	54,459	61,530
Short-term debentures	23,595	–
	198,478	150,904
Less: Amount capitalised under construction in progress	(14,188)	(44,495)
	184,290	106,409

7. Profit Before Taxation

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
(Reversal of) allowance for bad and doubtful debts	(4,168)	44,969
Depreciation and amortisation:		
– intangible assets	15,937	5,644
– prepaid lease payments	5,215	7,403
– property, plant and equipment	192,205	114,657
Loss on disposal of property, plant and equipment	916	739
Share-based payment expenses (included in administrative expenses)	4,330	11,059
Share of tax of associates (included in share of results of associates)	439	5,672
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	7,470	4,250

8. Taxation

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
PRC Enterprise Income Tax	80,339	65,157
Deferred taxation	16,430	4,463
	96,769	69,620

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and the Implementation Regulation have changed the tax rate from 33% to 25%. The statutory Enterprise Income Tax rate of 25% is applied to the group entities for the six months ended 30 June 2008 (six months ended 30 June 2007: 33%) except for certain group entities which are entitled to various concessionary tax rates.

Pursuant to the relevant laws and regulations in the PRC, certain 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.

The movements of deferred taxation for the period are as follows:

	Attributable to					Total RMB'000
	Valuation of property RMB'000	Intangible assets RMB'000	Capitalisation of interest in property, plant and equipment RMB'000	Undistributed retained profit of group entities RMB'000 (Note)	Others RMB'000	
At 1 January 2008	11,956	92,438	8,014	-	(1,579)	110,829
Acquisition of business (Note 25)	-	5,187	-	-	-	5,187
(Credit) charge to income statement:						
- Current period	-	(3,458)	3,547	4,645	-	4,734
- Underprovision for prior periods	-	-	11,696	-	-	11,696
At 30 June 2008	11,956	94,167	23,257	4,645	(1,579)	132,446

Note: The amount represents deferred taxation in respect of the temporary differences attributable to the undistributed retained profits earned after 1 January 2008 by the group entities registered in the PRC. The amount has been provided based on the temporary differences that the Director considers to be probably reversed in the foreseeable future upon distribution of profit by the respective group entities located in the PRC to non-PRC shareholders.

9. Dividend

Final dividends in respect of 2007 of HKD13.42 cents (2006: HKD7.75 cents) per share or RMB12.57 cents (2006: RMB7.79 cents) per share were paid during the period.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: nil).

10. Earnings Per Share

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

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the period attributable to equity holder of the Company)	285,999	175,497
Effect of dilutive potential ordinary shares:		
Fair value changes on convertible bonds	–	3,370
Earnings for the purpose of diluted earnings per share	285,999	178,867

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,009,759,397	980,799,944
Effect of dilutive potential ordinary shares:		
– share options	20,922,706	11,694,890
– convertible bonds	–	11,132,021
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,030,682,103	1,003,626,855

11. Property, Plant and Equipment, Prepaid Lease Payments and Investment Properties

During the period, through acquisition of business, the Group's property, plant and equipment increased by approximately RMB429,000 (six months ended 30 June 2007: RMB208,640,000).

In addition, the Group acquired property, plant and equipment and land use rights amounting to approximately RMB609,022,000 and RMB35,023,000 respectively (six months ended 30 June 2007: RMB729,064,000 and RMB21,286,000 respectively) during the period.

No revaluation on leasehold land and buildings and investment properties was carried out during the period. The valuation at 31 December 2007 was carried out by Knight Frank Petty Limited, an independent firm of qualified professional valuers not connected with the Group, on an open market value basis. The Directors of the Company consider that the carrying amounts of the leasehold land and buildings and investment properties at 30 June 2008 were not significantly different from their fair values on 31 December 2007.

12. Intangible Assets

During the six months ended 30 June 2008, the Group acquired gas station operation rights from an independent third party at a cash consideration of RMB2,000,000. In addition, the Group acquired, through acquisition of business, customer base of RMB390,000 and rights of operation of RMB20,361,000 (Note 25).

13. Interests in Associates and Jointly Controlled Entities

During the six months ended 30 June 2008, the Group made capital contribution to a newly set up associate and three newly set up jointly controlled entities amounting to RMB18,000,000 and RMB50,040,000 respectively.

Pursuant to a share transfer agreement dated 9 April 2008 entered into between the Company as vendor and 咸陽市國有資產監督管理委員會, an independent third party, as purchaser, the Company agreed to sell its entire 40% equity interest of an associate, 咸陽新奧燃氣有限公司 to 咸陽市國有資產監督管理委員會 at a consideration of RMB82,000,000. RMB75,000,000 was received during the six months ended 30 June 2008 as a deposit for the transaction and was included in other payables as at 30 June 2008. The remaining consideration will be settled upon completion of the transaction. The transaction was not yet completed up to the date of this report and accordingly the Group's share of net assets in this associate at the date of agreement amounting to RMB76,977,000 was reclassified as "non-current assets classified as held for sale" on the condensed consolidated balance sheet.

14. Loan Receivable

During the six months ended 30 June 2008, the Group granted a loan amounting to RMB15,000,000 to an independent third party to the Group. The amount is interest bearing at the People's Bank of China ("PBOC") base rate plus 1%, repayable on 31 March 2013 and secured by a piece of land owned by another independent third party to the Group.

15. Amounts due from an associate and a Jointly Controlled Entity

During the six months period ended 30 June 2008, an advance to an associate of RMB26,000,000 and an advance to a jointly controlled entity of RMB69,000,000, which are repayable in February 2009 and January 2009 respectively, were reclassified as current assets.

In addition to the reclassification described above, the amounts due from jointly controlled entities at 30 June 2008 also include dividend receivable from 東莞新奧燃氣有限公司 (“東莞新奧”) of RMB46,099,000 for the dividend declared during 2008 and trade receivables of RMB32,885,000 from 廣東新奧龍鵬能源有限公司 for the trading activities with this jointly controlled entity during 2008.

16. Deposits Paid

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Deposits paid for:		
– establishment of joint ventures	75,688	24,133
– acquisition of land use rights	8,000	–
– acquisition of rights of operations	5,272	–
– acquisition of property, plant and equipment	–	400
	88,960	24,533

17. Trade and Other Receivables

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Trade receivables aged:		
0 – 3 months	324,798	387,030
4 – 6 months	62,369	90,691
7 – 9 months	67,171	40,659
10 – 12 months	33,337	23,372
More than 1 year	9,538	7,186
Total trade receivables	497,213	548,938
Other receivables	184,536	179,842
Advance to suppliers, deposits and prepayments	430,799	341,177
	1,112,548	1,069,957

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

18. Trade and Other Payables

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Trade payables aged:		
0 – 3 months	441,545	538,657
4 – 6 months	82,302	145,312
7 – 9 months	109,718	68,031
10 – 12 months	37,848	34,564
More than 1 year	85,003	105,870
Total trade payables	756,416	892,434
Advances received from customers	1,152,346	882,895
Accrued charges and other payables (Note)	518,204	429,731
	2,426,966	2,205,060

Note: The amount includes the deposit received amounting to RMB75,000,000 in connection with the proposed disposal of an associate as set out in Note 13.

19. Amounts due to Related Companies

During the six months ended 30 June 2008, resulting from the increase in the demand of dimethyl ether (“DME”), the Group increased the purchase of DME from its related company, 新能(張家港)能源有限公司 (“Xinneng Zhangjiagang”) and resulted in an increase in amounts due to Xinneng Zhangjiagang of RMB44,350,000 at 30 June 2008. Xinneng Zhangjiagang is a company in which Mr. Wang Yusuo (“Mr. Wang”), the director and major shareholder of the Company, has equity interests.

20. Bank and Other Loans

During the period, the Group obtained new bank and other loans in the amount of RMB797,896,000 (six months ended 30 June 2007: RMB1,095,857,000 including those arising from acquisition of businesses of RMB107,857,000) and made repayments in the amount of RMB575,344,000 (six months ended 30 June 2007: RMB357,424,000). The loans bear interest at the range from 2.98% to 7.83% per annum. The proceeds were used to finance the capital expenditure and general working capital of the Group.

At 30 June 2008, certain assets of the Group with aggregate carrying value of RMB125,752,000 (31 December 2007: RMB136,540,000) were pledged as security for loan facilities granted by the banks.

21. Short-term Debentures

Pursuant to a circular 2007 No. 397 issued by PBOC dated 31 October 2007, PBOC approved a wholly-owned subsidiary of the Company, 新奧(中國)燃氣投資有限公司 (“XinAo (China)”), to issue short-term debentures with a maximum limit of RMB1,000,000,000 up to 31 October 2008. XinAo (China) issued debentures to independent third parties with face value of RMB400,000,000 on 20 November 2007 and further issued debentures with face value of RMB600,000,000 on 27 February 2008 to independent third parties. The debentures issued in current period are unsecured, interests bearing at 5.95% per annum and repayable one year after the issue date.

22. Guaranteed Notes

The guaranteed notes of US\$200,000,000 are denominated in US dollars and the change of the carrying value of guarantee notes during the six months ended 30 June 2008 is mainly attributable to the exchange gain of RMB89,100,000 (six months ended 30 June 2007: RMB40,240,000).

23. Capital Commitment

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	88,454	121,024

24. Share Options

The Company has a share option scheme for eligible employees and directors of the Group and the number of share options outstanding as at 31 December 2007 and 30 June 2008 are 40,390,000. There is no movement in the number of share options during the current period.

The Group recognised the total expense of RMB4,330,000 for the share options vested during the period (six months ended 30 June 2007: RMB11,059,000).

25. Acquisition of Business

On 5 May 2008, the Group acquired 90% of the registered capital of 廣州富城管道燃氣有限公司 at a cash consideration of RMB12,500,000. In addition, the Group also assumed the shareholders' loan amounting to RMB4,500,000. This transaction has been accounted for using the purchase method of accounting. The provisional fair value of assets and liabilities acquired in the transaction is set out as follows:

	Carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Plant and equipment	429	–	429
Intangible assets			
– customer base	–	390	390
– rights of operation	–	20,361	20,361
Inventories	681	–	681
Trade and other receivables	1,742	–	1,742
Cash and cash equivalents	847	–	847
Trade and other payables	(874)	–	(874)
Shareholders' loan	(4,500)	–	(4,500)
Deferred taxation	–	(5,187)	(5,187)
	(1,675)	15,564	13,889
Minority interests			(1,389)
Total consideration			12,500

	RMB'000
Net cash outflow arising on acquisition:	
Cash consideration paid	(12,500)
Cash paid on settlement of shareholders' loan	(4,500)
Cash and cash equivalents acquired	847
	(16,153)

25. Acquisition of Business *(continued)*

The Directors are in the process of reviewing valuation basis of the customer base and rights of operation. The ultimate fair value of the customer base, rights of operation and the existence of other intangible assets are expected to be finalised before the year ending 31 December 2008.

The business acquired contributed to the Group's revenue and profit for the six months ended 30 June 2008 of RMB1,308,000 and RMB448,000 respectively.

If the acquisition had been completed on 1 January 2008, the Group's revenue and profit for the six months ended 30 June 2008 would increase by RMB3,719,000 and RMB1,146,000 respectively.

26. Related Party Transactions

The Group has entered into the following transactions with its related parties during the periods:

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Associates		
– Sale of gas to	22,467	9,139
– Sale of materials to	1,203	197
– Purchase of gas from	25,559	4,499
– Provision of gas transportation services to	4,694	4,297
– Loan interest received from	4,810	2,648
– Loan advance to	–	20,000
Jointly controlled entities		
– Sale of gas to	41,291	6,032
– Sale of materials to	26,160	10,165
– Purchase of gas from	75,148	44,741
– Provision of gas transportation services to	76,590	6,490
– Loan interest received from	2,868	2,345
– Loan advance to	–	20,000
– Payments made on behalf of the Group	1,709	415
Minority shareholders of subsidiaries with significant influence		
– Provision of gas connection service to	1,546	–
– Provision of construction service by	803	500
– Loan advance to	150	9,022
– Lease of premises from	85	122
– Lease of land from	1,026	–
– Provision of transportation services by	477	–
– Loan interest received from	781	–

26. Related Party Transactions (continued)

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Companies controlled by Mr. Wang		
– Sales of gas to	872	2,439
– Sale of materials to	–	8
– Purchase of materials used in production – DME from	113,317	–
– Purchase of compressed natural gas truck trailers, pressure regulating and gas equipment from	–	99,056
– Provision of gas connection service to	1,399	736
– Provision for property management services by	2,163	1,216
– Provision for property management services to	218	181
– Deposit for purchase of compressed natural gas track trailers, pressure regulating and gas equipment paid to	–	4,328
– Provision of decoration services by	3,500	–
– Lease of premises to	520	1,370
– Lease of premises from	1,298	–
– Provision of supporting service by	273	1,196
– Provision of supporting service to	3,811	–

In addition to above, the compensation to key management personnel during the period is as follows:

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Short-term employee benefits	4,424	3,019
Post-employment benefits	49	44
Share-based payments	4,330	11,059
	8,803	14,122

27. Comparative Figures

The cost of sales, other income, administrative expenses, other expenses and segment information for the six months ended 30 June 2007 have been reclassified to conform with the presentation of the consolidated income statement for the year ended 31 December 2007.

	Six months ended 30 June 2007		
	As originally stated	Restatements	As restated
	RMB'000	RMB'000	RMB'000
Cost of sales	(1,538,135)	(5,644)	(1,543,779)
Other income	107,191	(13,977)	93,214
Administrative expenses	(350,354)	(7,245)	(357,599)
Other expenses	(26,866)	26,866	–

28. Post Balance Sheet Events

- a. The Group entered into an agreement with an independent third party, 汕頭市龍鵬能源投資有限公司 to acquire additional 11% equity interest in an investee companies, 汕頭市龍鵬新奧燃化有限公司 (“汕頭龍鵬”) at a consideration of RMB43,000,000 in August 2008. The Group already holds 40% equity interest in 汕頭龍鵬 as at 30 June 2008 and the investment is classified as available-for-sale investment as the Group cannot exercise significant influence. The consideration was settled by offsetting the loan to an independent third party, 汕頭市龍鵬能源投資有限公司 amounting to RMB43,000,000, which is included in other receivables as at 30 June 2008.
- b. Subsequent to 30 June 2008, the Group has set up certain companies established in the PRC. Details of investments are summarised as follows:

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by Company	Principal activities
衡水新奧車用燃氣 有限公司	PRC	RMB16,000,000	80%	Construction and operation of vehicles gas refuelling stations
台州新奧燃氣工程 有限公司	PRC	USD2,500,000	80%	Gas transportation; design and installation of gas facilities
株洲新奧燃氣工程技術服務 有限公司	PRC	RMB8,000,000	55%	Investment in gas pipeline infrastructure and provision of technical services on gas application

- c. The Group entered into an agreement with a joint venture partner, 東莞市新鋒管道燃氣有限公司 in August, to acquire additional 6% equity interest in a jointly controlled entity, 東莞新奧, in which, the Group already holds 49% equity interest as at 30 June 2008, at a consideration of RMB51,277,000. Upon the completion of the transaction, 東莞新奧 will still be considered as a jointly controlled entity of the Group as the Group will not have controls of the voting power in general meeting of 東莞新奧.

DISCLOSURE OF INTERESTS

Directors' interests or short positions in shares and in share options

As at 30 June 2008, the interests and short positions of each Director of the Company 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	Interest in shares			Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests	Family interests				
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	2,394,000 (Note 2)	333,275,000 (Note 1)	-	335,669,000	-	335,669,000	33.24%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	-	333,275,000 (Note 1)	2,394,000 (Note 2)	335,669,000	-	335,669,000	33.24%
Mr. Yang Yu	Beneficial owner	-	-	-	-	4,900,000	4,900,000	0.49%
Mr. Chen Jiacheng	Beneficial owner	-	-	-	-	4,550,000	4,550,000	0.45%
Mr. Zhao Jinfeng	Beneficial owner	-	-	-	-	4,550,000	4,550,000	0.45%
Mr. Qiao Limin	Beneficial owner	-	-	-	-	4,550,000	4,550,000	0.45%
Mr. Yu Jianchao	Beneficial owner	-	-	-	-	4,550,000	4,550,000	0.45%
Mr. Cheung Yip Sang	Beneficial owner	-	-	-	-	3,990,000	3,990,000	0.40%
Mr. Cheng Chak Ngok	Beneficial owner	-	-	-	-	560,000	560,000	0.06%

Notes:

- The two references to 333,275,000 shares relate to the same block of shares. Such shares are held by Xinao Group International Investment Limited ("XGII"), which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
- Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang.

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

Save as disclosed above, as at 30 June 2008, 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).

Directors' rights to acquire shares

Pursuant to the Company's share option schemes, the Company has granted options on the Company's ordinary shares in favour of certain Directors, the details of which are as follows:

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK\$)	Number of	Number of	Number of	Approximate
				shares subject to outstanding options as at 1 January 2008	shares involved under options exercised during the Period (Note 2)		
Mr. Yang Yu	15.03.2006	16.09.2006 – 15.03.2016	6.650	1,400,000	–	4,900,000	0.49%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	3,500,000	–		
Mr. Chen Jiacheng	15.03.2006	16.09.2006 – 15.03.2016	6.650	1,300,000	–	4,550,000	0.45%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	3,250,000	–		
Mr. Zhao Jinfeng	15.03.2006	16.09.2006 – 15.03.2016	6.650	1,300,000	–	4,550,000	0.45%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	3,250,000	–		
Mr. Qiao Limin	15.03.2006	16.09.2006 – 15.03.2016	6.650	1,300,000	–	4,550,000	0.45%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	3,250,000	–		
Mr. Yu Jianchao	15.03.2006	16.09.2006 – 15.03.2016	6.650	1,300,000	–	4,550,000	0.45%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	3,250,000	–		
Mr. Cheung Yip Sang	15.03.2006	16.09.2006 – 15.03.2016	6.650	1,140,000	–	3,990,000	0.40%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	2,850,000	–		
Mr. Cheng Chak Ngok	15.03.2006	16.09.2006 – 15.03.2016	6.650	160,000	–	560,000	0.06%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	400,000	–		
Total				27,650,000	–	27,650,000	

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. "Period" refers to the period from 1 January 2008 to 30 June 2008.

Save as disclosed above, at no time during the period from 1 January 2008 to 30 June 2008 (the "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 SHAREHOLDERS

As at 30 June 2008, 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	Interest in shares			Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests	Family interests				
Mr. Wang	Beneficial owner and interest of controlled corporation	2,394,000 (Note 2)	333,275,000 (Note 1)	-	335,669,000	-	335,669,000 (L)	33.24%
Ms. Zhao	Interest of spouse and interest of controlled corporation	-	333,275,000 (Note 1)	2,394,000 (Note 2)	335,669,000	-	335,669,000 (L)	33.24%
XGII	Beneficial owner	-	333,275,000 (Note 1)	-	333,275,000	-	333,275,000 (L)	33.01%
Penta Investment Advisers Ltd.	Investment manager	-	128,751,768 (Note 3)	-	128,751,768	-	128,751,768 (L)	12.75%
Mr. John Zwaanstra	Interest of controlled corporation	-	128,751,768 (Note 3)	-	128,751,768	-	128,751,768 (L)	12.75%
Capital Research and Management Company	Investment manager	-	88,551,000	-	88,551,000	-	88,551,000 (L)	8.77%

Name of shareholder	Capacity	Interest in shares			Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests	Family interests				
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent	-	80,241,058	-	80,241,058	-	80,241,058 (L) (including 64,512,415 (P))	7.95%
	Beneficial owner	-	800,000	-	800,000	-	800,000 (S)	0.08%
Commonwealth Bank of Australia	Interest of controlled corporation	-	70,980,000	-	70,980,000	-	70,980,000 (L)	7.03%

Notes:

1. The three references to 333,275,000 shares relate to the same block of shares. Such shares are held by XGII which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang.
3. The two references to 128,751,768 shares relate to the same block of shares. Such shares are held by Penta Investment Advisers Ltd., which is 100% beneficially owned by Mr. John Zwaanstra, in the capacity of an investment manager.
4. (L) represents Long Position; (S) represents Short Position; (P) represents Lending Pool.

Save as disclosed above, as at 30 June 2008, 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 2008, 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.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “2002 Scheme”) pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002.

The following table discloses details of the Company’s share options held by the employees (including Directors) and movements in such holdings under the 2002 Scheme during the Period:

Grantee	Date of grant	Exercise period (Note 1)	Exercise price (HK\$)	Number of		Approximate percentage of the Company’s total issued share capital (Aggregate)
				shares subject to outstanding options as at 1 January 2008	shares involved under options exercised during the Period (Note 2)	
Directors	15.03.2006	16.09.2006 – 15.03.2016	6.650	7,900,000	–	27,650,000 2.74%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	19,750,000	–	
Employees	15.03.2006	16.09.2006 – 15.03.2016	6.650	3,640,000	–	12,740,000 1.26%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	9,100,000	–	
Total				40,390,000	–	40,390,000 4.00%

Notes:

- The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- “Period” refers to the period from 1 January 2008 to 30 June 2008.

No share option was lapsed or cancelled during the Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the 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 Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau, who are all independent non-executive Directors. An audit committee meeting was held on 17 September 2008 to review the unaudited interim results and interim financial report for the six months ended 30 June 2008. 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 2008 in accordance with the Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code as contained in Appendix 10 to the Listing Rules. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions during the Period.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

To the knowledge of the Board, the Company has complied with the Code Provisions set out in the Code on Corporate Governance Practices as contained in Appendix 14 to the Listing Rules throughout the Period except a deviation from Code Provision E.1.2 because the Chairman of the Board was unable to attend the annual general meeting of the Company held on 27 May 2008 due to business trip. Alternatively, Mr. Yang Yu, the Chief Executive Officer of the Company, attended and acted as the Chairman of the said annual general meeting.

LOAN AGREEMENTS IMPOSING SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDERS

According to the US\$25,000,000 Loan Agreement entered into by the Company and the subsequent amendment thereto, Mr. Wang Yusuo, the controlling shareholder of the Company, is required to retain at least 27% of the total issued share capital of the Company throughout the term of the loan agreement, which is 5 years from 18 May 2004. 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 RMB1,614,040,000).

INTERESTS IN COMPETITORS

During the Period, 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, 18 September 2008



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