



XINAO GAS HOLDINGS LIMITED

(新 奧 燃 氣 控 股 有 限 公 司) *

(incorporated in the Cayman Islands with limited liability)

RESULTS ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2002

The Board of Directors (the “Directors”) of Xinao Gas Holdings Limited (the “Company” and together with its subsidiaries, the “Group”) are pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2002 (the “Relevant Period”) together with the comparative unaudited figures for the corresponding period in 2001. The unaudited consolidated results have been reviewed by the Company’s auditors and audit committee.

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2002**

| | <i>Notes</i> | Six months ended 30 June | |
|--|--------------|--------------------------------|--------------------------------|
| | | 2002 (Unaudited) RMB'000 | 2001 (Unaudited) RMB'000 |
| Turnover | 2 | 167,243 | 99,019 |
| Cost of sales | | <u>(80,627)</u> | <u>(40,062)</u> |
| Gross profit | | 86,616 | 58,957 |
| Other revenue | | 8,183 | 2,478 |
| Selling expenses | | (4,432) | (1,647) |
| Administrative expenses | | (30,285) | (14,907) |
| Other operating expenses | | <u>(1,200)</u> | <u>(503)</u> |
| Profit from operations | 3 | 58,882 | 44,378 |
| Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board | | (5,421) | – |
| Finance costs | | <u>(4,635)</u> | <u>(6,349)</u> |
| Profit before taxation | | 48,826 | 38,029 |
| Taxation | 4 | <u>(2,181)</u> | <u>(7,376)</u> |
| Profit before minority interests | | 46,645 | 30,653 |
| Minority interests | | <u>(6,186)</u> | <u>(2,640)</u> |
| Profit for the period | | <u>40,459</u> | <u>28,013</u> |
| Dividends | 5 | <u>–</u> | <u>–</u> |
| Earnings per share | 6 | | |
| Basic | | <u>5.90 cents</u> | <u>5.86 cents</u> |
| Diluted | | <u>5.85 cents</u> | <u>–</u> |

Notes:

1. Basis of preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 July 2000. On 28 March 2001, pursuant to a reorganisation (the “Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on The Growth Enterprise Market (“GEM”), the Company became the holding company of the subsidiaries included in the Reorganisation.

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

The shares of the Company have been listed on GEM of Stock Exchange since 10 May 2001. During the Relevant Period, the Company withdrawn the listing of its shares on GEM. On 3 June 2002, the Company has by way of introduction, listed its entire issued share capital on the Main Board of the Stock Exchange.

The condensed financial statements have been prepared under the historical cost convention as modified for revaluation of certain properties.

The accounting policies adopted are consistent with those followed in the Group’s annual financial statements for the year ended 31 December 2001, except as described below.

In the current period, the Group has adopted, for the first time, the following new and revised SSAPs which has resulted in changes in the accounting policies and the presentation of the financial statements as described below.

SSAP 1 (Revised) “Presentation of Financial Statements” has introduced new format of presentation in reporting changes in equity.

SSAP 15 (Revised) “Cash Flow Statements” has changed the classification of cash flows in the cash flow statement and the definition of cash equivalents by excluding cash balances held for investment purposes and short term loans that are financing in nature.

SSAP 34 “Employee Benefits” has introduced a formal framework for the recognition of liabilities and expenses in respect of employee benefits. The adoption of this new accounting standard has not resulted in any material effects on the results for the current or prior periods.

2. Segment information

(a) Business segments

For management purposes, the Group is currently divided into three divisions: gas connection, sales of gas and sales of gas appliances. These divisions are the basis on which the Group reports its primary segment information.

| | Six months ended 30 June | |
|---------------------------------|---|---|
| | 2002 (Unaudited) RMB'000 | 2001 (Unaudited) RMB'000 |
| Turnover | | |
| Gas connection fees | 98,598 | 77,224 |
| Sales of gas | 68,067 | 21,404 |
| Sales of gas appliances | 578 | 391 |
| | <u>167,243</u> | <u>99,019</u> |
| Profit from operations | | |
| Gas connection fees | 74,019 | 54,934 |
| Sales of gas | 21,159 | 5,420 |
| Sales of gas appliances | 184 | 408 |
| Unallocated other revenue | 8,183 | 2,478 |
| Unallocated expenses: | | |
| – depreciation and amortisation | (6,626) | (1,977) |
| – corporate expenses | (38,037) | (16,885) |
| | <u>58,882</u> | <u>44,378</u> |

(b) *Geographical segment*

All of the Group's businesses are derived from activities in the People's Republic of China ("PRC"), including Hong Kong, in both periods.

3. Profit from operations

| | Six months ended 30 June | |
|--|---|---|
| | 2002 (Unaudited) RMB'000 | 2001 (Unaudited) RMB'000 |
| Profit from operations has been arrived at after charging: | | |
| Amortisation of goodwill | 293 | – |
| Depreciation and amortisation of property, plant and equipment | 28,707 | 3,192 |
| after crediting: | | |
| Interest income | <u>2,060</u> | <u>797</u> |

4. Taxation

The charge represents enterprise income tax in the PRC for the period.

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.

5. Dividends

The Directors resolved not to pay an interim dividend for the six months ended 30 June 2002 (2001: Nil).

6. Earnings per share

The calculation of basic earnings per share for the period is based on the profit for the period of RMB40,459,000 (2001: RMB28,013,000) and the weighted average of 685,950,276 (2001: 477,679,556) shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the profit for the period of RMB40,459,000 and the adjusted weighted average of 691,416,781 shares, after taking into account of the effect of dilutive share options, in issue during the period.

No diluted earnings per share is presented in the previous period as there were no potential dilutive shares in existence during that period.

FINANCIAL REVIEW

During the Relevant Period, the Group's turnover increased by 70% to RMB167,243,000 as compared to the corresponding period last year. Among them gas connection fees and gas usage charges accounted for RMB98,598,000 and RMB68,067,000 respectively, representing an increase of 27.7% and 2.18 times over the corresponding period last year. During the period, gross profit of the Group increased by 46.9% to RMB86,616,000 and gross profit margin decreased from 59.5% to 51.8% when compared with the corresponding period last year. The decrease in gross profit margin was mainly attributable to the change in the proportion of income derived from gas connection fees and gas usage charges. During the Relevant Period, the share of gas connection fees and gas usage charges of the Group as a proportion of total income has changed from 78% and 21.6% of the corresponding period last year to 59% and 40.7%. The increase in gas usage charges was mainly resulted from the increasing sales of Liquefied Petroleum Gas ("LPG") by Bengbu Xinao. Bengbu Xinao was established last year by the Group and is the major supplier of LPG in Bengbu, Anhui Province and the neighbouring markets, its sales reached RMB45,800,000 during the Relevant Period. As the gross profit of the sales of LPG is generally lower than that of natural gas, the consolidated gross profit margin of the Group declined accordingly. However, LPG is only a transitional gas source and will be gradually replaced by natural gas.

The Group's operating profit increased by 32.7% to RMB58,882,000 as compared to the corresponding period last year. Profit attributable to the shareholders was RMB40,459,000 during the relevant period; If the relevant listing expenses of RMB5,421,000 for the Company's transferring of its listing status to the Main Board of the Stock Exchange of Hong Kong on 3 June 2002 was excluded, profit attributable to the shareholders would be RMB45,880,000, representing an increase of 63.8% as compared to the same period last year. On this profit basis, the earnings per share would be RMB6.69 cents, representing an increase of 14.2% when compared to the corresponding period last year.

As at 30 June 2000, the Group was in a net cash position with cash on hand of RMB550 million, while the total bank borrowing was RMB230 million. Notwithstanding the net cash position, the Group is still actively pursuing to obtain syndicated loan to support the Company's strategy to expand into major cities. As the interest rate and the related expenditures of syndicated loan are both lower under the current environment, the Company would thus be able to obtain sufficient funds at a lower cost. Moreover, the Group is one of the first Chinese private enterprises to obtain syndicated loan in Hong Kong, this has demonstrated the confidence of banks in the Group.

BUSINESS REVIEW

During the Relevant Period, development of the Group's new projects have been progressing smoothly. Last year, the Group has conducted a market research on more than 40 cities including of Provinces Henan, Shandong, Jiangsu, Anhui, Zhejiang, Shanghai, Hebei. Among them, 20 cities have been shortlisted as the focus for 2002 whilst the Company has set a target in securing 6 to 8 cities with population of more than 300,000 each for 2002.

From 1 January 2002 to the date of this announcement, the Group has devolved considerable efforts to marketing cities along the West to East Pipelines and other cities with good potentials, and has secured exclusive rights for the construction and operations of natural gas distribution network in the following cities. Except for Xinxiang project of Henan Province, all new projects have been incorporated:

| | |
|--------------------|-------------------------|
| Anhui Province: | Chuzhou, Liuan |
| Jiangsu Province: | Yancheng, Huaian, Haian |
| Zhejiang Province: | Anji |
| Shandong Province: | Rizhao |

The number of cities the Group has secured exclusive rights has increased from 15 cities at the end of 2001 to 24 cities as at the date of this report. Coverage of connectable population has also increased from 3,400,000 to more than 6,500,000. Most of this year's targets have been accomplished. This demonstrates the huge gas market opportunity and the Group's ability to secure more new projects. In the second half of the year, the Group will continue to secure potential new projects. During the Relevant Period, the number of projects in operation has also increased from 12 cities at the end of last year to 17 cities at the end of June 2002. The following projects have started operation during the Relevant Period:

| | |
|--------------------|-------------------------------|
| Shandong Province: | Laiyang Xinao, Zhouping Xinao |
| Jiangsu Province: | Taixing Xinao, Yancheng Xinao |
| Anhui Province: | Bengbu Xinao |

In addition, the Group has secured the right to construct a CNG station in Yancheng and the registration procedure for Yancheng Xinao Compressed Natural Gas Limited has completed in June 2002. It is expected that the supply of gas will commence in October 2002. Yancheng Gasfield is the only natural gas source in Jiangsu Province and the construction of Yancheng Xinao CNG Station is of strategic importance to the Group's market development in Jiangsu Province as it will be the sole supplier of CNG in Jiangsu Province.

During the Relevant Period, the Group has made new gas connections to 22,878 households and 67 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of 53,891 cubic meters), representing an increase of 21.2% and 1.48 times (in terms of designed daily capacity) respectively as compared to the end of last year. As at 30 June 2002, the Group has made gas connections for a total of 130,879 households and 422 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of 323,638 cubic meters). The increase in gas connections is attributable to the Group's active development of new gas projects, intensive marketing efforts on the existing projects that leads to increased penetration rate of the existing projects cities, and public awareness of the benefits of natural gas over other forms of energy.

As to gas sales, the Group has sold a total of approximately 5,635,662 cubic meters of natural gas to residential customers and approximately 13,532,832 cubic meters to commercial and industrial customers, and a total of 16,682 tons of LPG. Besides, the Group further enhanced its quality and safety management system. In particular, Liaocheng Xinao and Huludao Xinao have obtained the ISO 9000 quality accreditation. Together with Lanfang Xinao which passed the accreditation last year there are three gas companies within the Group that have passed the ISO 9000 quality accreditation.

In terms of customer services management, the Group has perfected the call center system of Langfang Xinao and completed the construction of call centre of Huludao Xinao. Furthermore, it is expected that the construction of the call centres of Bengbu Xinao and Liaocheng Xinao will be completed in the second half of the year. Application for the special service number "95158" for new project cities such as Yancheng and Xinxiang is expected to be received in the second half of the year. Number "95158" is a national standardised number that is important to improve customer service efficiency and enhance the brandname of "Xinao Gas".

In respect of inventory management, the Group has been promoting the implementation of inventory management software. Combined with the policy on stock management, efficiency of inventory management and material usage for construction work was enhanced. In addition, the Group has started the planning of information resources in Lanfang Xinao to improve work efficiency and simplify work flow.

The Group has accelerated the construction of gas processing stations and pipelines. During the Relevant Period, the Group constructed approximately 94 km of intermediate pipeline and main pipeline. As at 30 June 2002, the Group owns 558 km of intermediate pipelines and main pipelines. Currently, the Group owns 14 natural gas processing stations. In the second half of the year, the construction of processing stations for the Group's projects in 12 cities namely Miyun in Beijing Municipality, Xinxiang in Henan Province, Laiyang and Rizhao in Shandong Province, Chuzhou in Anhui Province, Taixing and Yancheng in Jiangsu Province will commence. It is expected that these stations will become operational by the end of this year.

PROSPECTS

Looking forward, the Directors is confident with the future outlook of the Group. Natural gas, being a clean and efficient source of energy, is attracting and increasing public attention and is being heavily promoted by the Central and local governments in supporting for its usage. In the coming few years, the Group will continue securing high quality new project cities. The Group has set a development target to secure 6 to 8 new project cities with connectable population of around 300,000 to 1,500,000 each between 2002-2005.

At the same time of capturing market share, the Group will also focus its resource to accelerate the construction of natural gas infrastructure, to improve penetration rate in the existing project cities, including the balanced development of commercial and industrial consumers and residential consumers, and to assure the long-term interests of the Group. Meanwhile the Group has secured a number of gas projects since 2000 and these projects are expected to contribute to the Group's revenue and profit, further strengthened the Group's profit and result in good return to the shareholders.

Since the beginning of this year, the Group have started discussions with certain provincial capital city governments and the discussions have progressed smoothly. Provincial capital cities are of rich resources, its commercial and industrial users are of high gas consumption and the benefits of scale economy are significant, all are good for the Group's improvement in revenue structure and sustainable earning power. Moreover, in terms of the human resources management, the Group has recruited a large number of management and technology experts, which has provided abundant supply of human resources for the administration and operation of its new projects.

The winning of the right to host the 2008 Olympic Games by Beijing is expected to cause an urgency to improve the air quality and there will be an increase in the demand of real estates in Beijing and the surrounding areas. Besides, the construction of the West to East Pipelines has fully unfolded on 4 July 2002 and gas supply is expected to commence in 2004. For these reasons, the Group's purchasing cost for natural gas is expected to reduce significantly and hence improve the profitability and pace of market development. The city natural gas distribution market in the PRC is a broad market with huge potentials and is bound to provide vast room for development opportunities for the Group. Through the relentless pursuit of excellence and supports from our members of staffs as well as people from different spectrum of the society, we are determined to become the leader in the city gas distribution industry.

EMPLOYEE

As at 30 June 2002, the Group had a total of 1945 staff of which 1942 are based in the PRC and three are based in Hong Kong. They are remunerated at market level with benefits such as bonus, retirement benefit and share option scheme.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the six months period ended 30 June 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

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 including a review of the unaudited interim financial report for the six months ended 30 June 2002 (“Interim Report”). At the request of the Directors, the Group’s external auditors have carried out a review of the Interim Report in accordance with Statement of Auditing Standards 700 “Engagement to review interim financial reports” issued by the Hong Kong Society of Accountants.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Group is not, or was not for any part of the six months ended 30 June 2002, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of Stock Exchange.

PUBLICATION OF DETAILED INTERIM RESULTS ON THE STOCK EXCHANGE’S WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules of The Stock Exchange will be published on the Stock Exchange’s Website in due course.

By order of the Board
WANG YUSUO
Chairman

29 August 2002

* *For identification only*