新奧燃气控股有限公司
XinAo Gas Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2688)

(Website: www.xinaogas.com)

INTERIM RESULTS ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2005

The Board of Directors (the "Directors") of Xinao Gas Holdings Limited (the "Company" and together with its subsidiaries, the "Group") is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2005 (the "Relevant Period"). The unaudited condensed consolidated financial statements have been reviewed by the Company's auditors and audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2005

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

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2005

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

Notes

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

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

Business combinations

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

Goodwill

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

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

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

Financial instruments

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

Convertible bonds

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

Derivatives

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

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

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

Classification and measurement of financial assets and financial liabilities

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

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

Owner-occupied leasehold interest in land

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

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

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

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

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

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

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

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

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

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

4. SEGMENT INFORMATION

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

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

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

5. PROFIT BEFORE TAXATION

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

6. TAXATION

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

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

7. DIVIDEND

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

8. EARNINGS PER SHARE

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

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

9. TRADE AND OTHER RECEIVABLES

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

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

10. TRADE AND OTHER PAYABLES

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

BUSINESS REVIEW

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

	Six months ended 30 June 2005 (Unaudited)	2004 (Unaudited and restated)	Increase (Decrease)
Turnover *(RMB)*	853,601,000	587,118,000	45.4%
Gross profit *(RMB)*	299,701,000	234,698,000	27.7%
Profit attributable to shareholders *(RMB)*	110,710,000	89,266,000	24.0%
Earnings per share – Basic *(RMB)*	12.6 cents	10.8 cents	16.7%
Connectable urban population	31,446,000	20,488,000	53.5%
Connectable residential households	10,482,000	6,829,000	53.5%
New natural gas connections made to residential households during the Relevant Period	123,799	104,142	18.9%
New natural gas connections made to commercial/ industrial ("C/I") customers during the Relevant Period	516	304	69.7%
New installed designed daily capacity for natural gas C/I customers during the Relevant Period *(m^3)*	438,739	187,405	1.3 times
Accumulated number of natural gas residential customers	904,791 *(Note 1)*	566,041 *(Note 2)*	59.8%
Accumulated number of natural gas C/I customers	2,553 *(Note 1)*	1,275 *(Note 2)*	1.0 time
Accumulated installed designed daily capacity for natural gas C/I customers *(m^3)*	1,662,800 *(Note1)*	810,658 *(Note 2)*	1.1 times
Accumulated piped gas residential customers	1,234,652	764,954	61.4%
Accumulated piped gas C/I customers	3,074	1,529	1.0 times
Accumulated installed designed daily capacity for piped gas C/I customers *(m^3)*	1,733,791	821,198	1.2 times
Natural gas penetration rate	8.6%	8.3%	–
Piped gas penetration rate	11.8%	11.2%	–
Unit of piped gas sold to residential households *(m^3)*	96,460,000	56,817,000	69.8%
Unit of piped gas sold to C/I customers *(m^3)*	120,619,000	59,989,000	1.0 times
Unit of liquefied petroleum gas ("LPG") sold *(ton)*	22,799	19,522	16.8%
Number of compressed natural gas ("CNG") vehicle refuelling stations	8	1	7
Number of natural gas processing stations	59	46	13
Total length of existing intermediate and main pipelines *(km)*	6,581	2,690	1.4 times

Notes:

1. Including accumulated 146,314 natural gas residential customers and 522 natural gas C/I customers (with a total designed daily capacity of 165,947 m^3) from acquisition/conversion.

2. Including accumulated 80,616 natural gas residential customers and 189 natural gas C/I customers (with a total designed daily capacity of 90,460 m^3) from acquisition/conversion.

Pipeline Construction

During the Relevant Period, gas connection fee revenue reached RMB410,962,000, representing an increase of 29.5% over the corresponding period last year and accounting for 48.1% of the total revenue. The average connection fees for residential households and C/I customers were RMB2,672 and RMB294 (per m^3) respectively. As compared to 2004, the average connection fees for residential households remained at the same level; the average connection fees for C/I customers dropped because of special discount the Group offered for attracting more C/I connections. As C/I customers are the main gas users, more C/I customers can significantly increase gas sales volume in the future, fully utilise the contracted gas volume from West-East Pipeline and provide reliable and steady revenue and cash flow.

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

Gas Sales

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

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

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

Gross and Net Profit Margins

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

New Projects

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

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

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

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

Human Resources

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

FINANCIAL RESOURCES REVIEW

Liquidity and Capital Resources

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

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

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

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

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

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

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

Borrowing Structure
As at 30 June 2005, the Group's total bank and other borrowings were equivalent to RMB2,155,015,000 (31 December 2004: RMB1,864,458,000), including zero coupon convertible bonds of HK$495,153,000 (equivalent to RMB524,862,000), loans of US$80,000,000 (equivalent to RMB661,400,000) and a secured mortgage loan of HK$10,652,000 (equivalent to RMB11,291,000). Apart from the zero coupon convertible bonds, all the other US dollar and HK dollar loans borne interest at floating rates, and the remaining bank and other borrowings were denominated in RMB at fixed interest rates. The project companies used the RMB loans as their working capital and operational expenditure. Except for the loan amount equivalent to RMB43,196,000 that had to be secured by net asset value equivalent to RMB112,554,000, all of the other loans were unsecured. Short-term loans were equivalent to RMB908,285,000, while the remaining were long-term loans falling due after more than one year.

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

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

PROSPECTS

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

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

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

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

PURCHASE, SALE OF REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

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

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 21 September 2005

As at the date of this announcement, the board of directors of the Company comprises of nine executive directors, namely Mr. Wang Yusuo (Chairman), Mr. Yang Yu (Chief Executive Officer), Mr. Chen Jiacheng, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Jin Yongsheng, Mr. Yu Jianchao, Mr. Cheung Yip Sang and Mr. Cheng Chak Ngok; one non-executive director, namely Ms. Zhao Baoju; and three independent non-executive directors, namely Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau.