XINAO GAS HOLDINGS LIMITED
新奥燃氣控股有限公司

(incorporated in the Cayman Islands with limited liability)
(website: www.xinaogas.com)

RESULTS ANNOUNCEMENT
FOR THE PERIOD ENDED 30 JUNE 2003

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 2003 (the "Relevant Period") together with the comparative unaudited figures for the corresponding period in 2002. 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 2003

		Six months ended 30 June	
		2003	**2002**
		(Unaudited)	**(Unaudited)**
	Notes	*RMB'000*	*RMB'000*
Turnover	*3*	334,552	167,243
Cost of sales		(195,054)	(80,627)
Gross profit		139,498	86,616
Other operating income		14,887	8,183
Selling expenses		(8,620)	(4,432)
Administrative expenses		(54,552)	(30,285)
Other operating expenses		(6,228)	(1,200)
Profit from operations	*4*	84,985	58,882
Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board		–	(5,421)
Finance costs		(9,528)	(4,635)
Share of result of jointly controlled entity		(31)	–
Profit before taxation		75,426	48,826
Taxation	*5*	(1,593)	(2,181)
Profit before minority interests		73,833	46,645
Minority interests		(8,326)	(6,186)
Profit for the period		65,507	40,459
Dividend	*6*	–	–
Earnings per share	*7*		
Basic		8.9 cents	5.90 cents
Diluted		–	5.85 cents

Notes:

1. Basis of preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 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. The entire share capital of the Company is listed 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 2002, except as described in note 2 below.

2. Change in accounting policy

Income taxes

In the current period, the Group has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The retrospective adoption of this new standard has not resulted in any significant effect on the financial statements in the prior periods, and accordingly, no prior period adjustment has been made. The effect of the adoption of this new accounting policy has increased the net profit for the current period by RMB223,000.

3. Segment information

Business segments

For management purposes, the Group is currently divided into four divisions: gas connection, distributions of liquefied petroleum gas, sales of piped 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	
	2003	**2002**
	(Unaudited)	**(Unaudited)**
	RMB'000	*RMB'000*
Turnover		
Gas connection fees	190,807	98,598
Distributions of liquefied petroleum gas	71,373	39,091
Sales of piped gas	69,072	28,976
Sales of gas appliances	3,300	578
	334,552	167,243
Profit from operations		
Gas connection fees	135,502	74,019
Distributions of liquefied petroleum gas	3,791	5,073
Sales of piped gas	19,657	16,086
Sales of gas appliances	694	184
Unallocated other operating income	6,887	8,183
Unallocated expenses:		
– depreciation and amortisation	(21,117)	(6,626)
– corporate expenses	(60,429)	(38,037)
	84,985	58,882

4. Profit from operations

	Six months ended 30 June	
	2003	**2002**
	(Unaudited)	**(Unaudited)**
	RMB'000	*RMB'000*
Profit from operations has been arrived at after charging (crediting):		
Allowance for inventories	726	–
Amortisation of goodwill included in other operating expenses	978	293
Depreciation and amortisation of property, plant and equipment	21,117	10,824
Release of negative goodwill included in other operating income	(48)	(48)

5. Taxation

The charge represents the sum of enterprise income tax in the PRC currently payable and deferred tax credit 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.

6. Dividend

The Directors resolved not to pay an interim dividend for the six months ended 30 June 2003 (2002: nil).

7. Earnings per share

The calculation of basic earnings per share for the period is based on the profit for the period of RMB65,507,000 (2002: RMB40,459,000) and the weighted average of 737,000,000 (2002: 685,950,276) shares in issue during the period.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those share options is higher than the average market price for shares for the six months ended 30 June 2003.

The calculation of diluted earnings per share for the period ended 30 June 2002 was 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.

BUSINESS REVIEW

The Directors announce that the unaudited profit attributable to shareholders of the Group for the Relevant Period was RMB65,507,000, representing an increase of RMB25,048,000 or 61.9% as compared to RMB40,459,000 of the corresponding period last year.

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 2003	Six months ended 30 June 2002	Increase (Decrease)
Turnover *(RMB)*	334,552,000	167,243,000	1 time
Gross profit *(RMB)*	139,498,000	86,616,000	61.1%
Profit attributable to shareholders *(RMB)*	65,507,000	40,459,000	61.9%
Earnings per share – Basic *(RMB)*	8.9 cents	5.90 cents	50.8%
Connectable population	14,644,000	4,969,000	1.9 times
Connectable residential households	4,881,000	1,656,000	1.9 times
New connections made to residential households during the Relevant Period	68,821	22,878	2 times
New connections made to commercial/industrial customers during the Relevant Period	105	67	56.7%
New installed designed daily capacity for commercial/industrial customers during the Relevant Period *(m^3)*	128,218	53,891	1.4 times
Accumulated connections made to residential households	279,671	130,879	1.1 times
Accumulated connections made to commercial/industrial customers	607	422	43.8%
Accumulated installed designed daily capacity for commercial/industrial customers *(m^3)*	493,332	323,638	52.4%
Gas penetration rate for residential households	5.7%	7.9%	–
Unit of natural gas sold to residential households *(m^3)*	13,564,000	5,636,000	1.4 times
Unit of natural gas sold to commercial/industrial customers *(m^3)*	31,695,000	13,533,000	1.3 times
Unit of Liquefied Petroleum Gas ("LPG") sold *(ton)*	22,430	16,682	34.5%
Existing length of intermediate and main pipelines *(km)*	1,291	558	1.3 times
Number of processing stations	28	14	14

Pipeline Construction

During the Relevant Period, gas connection fees revenue reached RMB190,807,000, representing an increase of 93.5% over the corresponding period last year and accounting for 57.0% of the total revenue. The average connection fees for residential households and commercial/industrial customers were RMB2,325 and RMB587 (per m^3) respectively, decreasing 10% and increasing 2% respectively as compared to the average connection fees in 2002. The decrease in the average connection fees for residential households was mainly because the major connection fees revenue in the past had included the charges for cooking stoves, which were not included in the connection fees in the new projects, and also, the Group offered special price to attract more households to make connections to and use natural gas.

The new installed designed daily capacity for commercial/industrial customers increased 1.4 times as compared to the corresponding period last year. As an installed designed daily capacity of 75,000 m^3 was transferred to the Group when the Group obtained the Shijiazhuang project, it was not included in the connection fees revenue from commercial/industrial customers. The Group expects that when the West-to-East Pipelines complete and the supply of natural gas commences in 2004, the gas supplying capacities of the projects along the West-to-East Pipelines will increase tremendously, and the connections made to commercial/industrial customers will also increase accordingly. These will further strengthen the Group's stable long term revenue.

Gas Sales

During the Relevant Period, natural gas sales revenue reached RMB69,072,000, representing an increase of 1.4 times over the corresponding period last year and accounting for 20.6% of the total revenue, and the sales volume of natural gas also increased by 1.4 times. The strong increase in natural gas sales did not just come from quality new projects the Group had successfully obtained, but also from successful marketing in existing projects. The high growth in the sales of natural gas also fully reflected that the use of natural gas as a quality energy source was well-received by the public.

During the Relevant Period, LPG sales revenue reached RMB71,373,000, representing an increase of 82.6% over the corresponding period last year and accounting for 21.3% of the total revenue. The main source of revenue growth came from the huge volume of LPG sales made by Huaian Xinao Gas Company Limited ("Huaian Xinao"), which was set up in September 2002 by the Group, and its sales volume accounted for 46.6% of the total volume of LPG sales. The operating profit of LPG turned around from a loss of RMB1,874,000 in 2002 to a profit of RMB3,791,000 during the Relevant Period; the main reason for turning loss into profit in LPG sales was that Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), by the time it was set up, was allowed to raise the selling price of LPG by 20% starting from May this year, and the LPG sales volume made by Bengbu Xinao accounted for 41.4% of the total volume of LPG sales.

Distribution of natural gas is the main business of the Group. A few project companies' main business had been the sale of LPG before being acquired by the Group. However, after these few projects being acquired by the Group and the new project companies being incorporated, they have all started the construction of natural gas pipeline network, and the West-to-East Pipelines Project is about to be completed, so the Group expects that the sales of LPG in all these projects will be replaced by piped natural gas eventually.

Gross and Net Profit Margins

When compared to the corresponding period last year, the consolidated gross and net profit margins of the Group decreased from 51.8% and 24.2% in the first half of 2002 to 41.7% and 19.6% in the Relevant Period. The main reason for the decrease was the huge volume of LPG sales during the Relevant Period. Excluding the sales of LPG, gross and net profit margins still remained at 52.1% and 23.9% respectively. As the sales of LPG will decrease steadily, the consolidated gross and net profit margins are expected to increase correspondingly.

New Projects

During the Relevant Period, the Group secured the following 7 new projects:

Jiangsu Province:	Wujin
Zhejiang Province:	Lanxi, Wenzhou and Jinhua
Anhui Province:	Chaohu
Hunan Province:	Xiangtan
Guangdong Province:	Dongguan

Connectable population also rose enormously to 14,644,000 as at the end of June 2003, representing an increase of 1.9 times from 4,969,000 as in June last year, and the piped gas penetration rate for residential households was only 5.7%. The increase in new projects and the potential commercial/ industrial customers will significantly strengthen the Group's current and future income. The most significant one is the project in Dongguan, Guangdong Province: with a connectable population of 3,870,000 and about 18,000 industrial enterprises, among which 16,000 are Sino-foreign joint ventures, it is currently the Group's largest project. It is expected that when the Guangdong Liquefied Natural Gas ("LNG") Terminal is connected and starts to supply gas in 2006, the Dongguan Project will contribute considerable revenue to the Group.

To strengthen the Group's professional management, every project company is going to split into two, and this is expected to be finished by the end of this year. This split separates the pipeline construction business and gas distribution business of each original project company into two companies, and the different professional teams can manage and operate the corresponding companies more professionally, so resources can be used more effectively. When the split is finished, the number of subsidiary companies will double, but the number of operation locations will remain the same.

Human Resources and Productivity

As at 30 June 2003, the total number of staff employed by the Group was 3,507, of which six were based in Hong Kong. The number of staff increased 80.4% as compared to the corresponding period last year, while the connectable population increased 1.9 times, and the productivity of the staff increased more than 1 time. The staff were remunerated at market level with benefits such as bonus, retirement benefit and share option schemes.

FINANCIAL RESOURCES REVIEW

Liquidity and Capital Resources

As at 30 June 2003, the Group had cash on hand equivalent to RMB429,467,000 (31 December 2002: RMB631,536,000), while the total bank and other borrowings were equivalent to RMB484,395,000 (31 December 2002: RMB467,428,000), and the net gearing ratio was 5.5%, calculated by dividing net debt over equity.

Currently, the Group's operating and capital expenditures are funded by operating cash flow, internal liquidity and bank loans. 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 2003, the Group's total bank and other borrowings were equivalent to RMB484,395,000 (31 December 2002: RMB467,428,000), which included a three-year syndicated loan of US$30,000,000 signed in September 2002 (equivalent to RMB248,040,000) and a mortgage loan of HK$12,969,000 (equivalent to RMB13,747,000) with floating interest rates. The remaining borrowings, denominated in Renminbi, were granted by local banks in the PRC to the project companies with fixed interest rates and would be used as their working capital and operating expenditure. Except for a loan amount equivalent to RMB50,931,000 that had to be secured by a net asset value equivalent to RMB69,654,000, all of the other loans were unsecured. Short-term loans were equivalent to RMB201,510,000, 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 a currency and interest rate swap contract for a syndicated loan of US$30,000,000 in order to fix the exchange and interest rates.

Contingent Liabilities

As at 30 June 2003, the Group gave guarantee to a bank in respect of banking facilities granted to a third party to the extent of RMB2,000,000 (31 December 2002: RMB39,500,000).

PROSPECTS

As the West-to East Pipelines Project is about to be completed, the gas supplying capacities of the downstream project companies will increase tremendously, and the number of natural gas users will also increase accordingly. With the Group's abilities to obtain projects in medium-large cities and develop the local natural gas markets, it is expected that the business of the Group is still in the high growth stage, and it will bring high returns to the shareholders.

PURCHASE, SALE OR 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

An audit committee was formed in March 2001 to review and supervise the financial reporting process and internal control of the Company. An audit committee meeting was held in September 2003 to review the unaudited interim accounts for the six months ended 30 June 2003. Deloitte Touche Tohmatsu, the Group's external auditors, have carried out a review of the unaudited interim accounts for the six months ended 30 June 2003 in accordance with the Statement of Auditing Standards No.700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. An unmodified review report was issued subsequent to the review.

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 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

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

Hong Kong, 22 September 2003