新奥燃气控股有限公司

XinAo Gas Holdings Limited

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 2688)

(Website: www.xinaogas.com)

INTERIM RESULTS

Interim Results Announcement
For The Six Months Ended 30 June 2007

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 2007 (the "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 2007

		Six months ended 30 June	
		2007	**2006**
		(Unaudited)	**(Unaudited and restated)**
	NOTES	*RMB'000*	*RMB'000*
Revenue	*3*	2,309,610	1,450,162
Cost of sales		(1,538,135)	(941,837)
Gross profit		771,475	508,325
Other income		107,191	110,139
Selling expenses		(32,450)	(25,735)
Administrative expenses		(350,354)	(226,485)
Fair value changes on derivative financial instruments		(6,377)	(35,061)
Fair value changes on convertible bonds		(3,370)	(35,448)
Impairment loss on goodwill		(50,605)	–
Other expenses		(26,866)	(23,096)
Share of results of associates		(3,812)	3,388
Share of results of jointly controlled entities		22,679	14,154
Finance costs		(106,409)	(98,078)
Profit before taxation		321,102	192,103
Taxation		(69,620)	(25,752)
Profit for the period		251,482	166,351
Attributable to:			
Equity holders of the Company		175,497	125,252
Minority interests		75,985	41,099
		251,482	166,351
Interim dividend	*4*	–	–
Earnings per share	*5*		
Basic		17.9 cents	13.6 cents
Diluted		17.8 cents	13.6 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2007

	At 30 June 2007 (Unaudited) *RMB'000*	At 31 December 2006 (Audited) *RMB'000*
Non-current assets		
Property, plant and equipment	6,011,718	5,191,837
Prepaid lease payments	404,453	375,200
Investment properties	68,206	70,885
Goodwill	242,488	184,267
Intangible assets	273,839	267,386
Interests in associates	396,211	340,173
Interests in jointly controlled entities	358,229	295,530
Available-for-sale investments	22,773	18,420
Amount due from an associate	103,000	83,000
Amount due from a jointly controlled entity	89,000	69,000
Deposits paid for investments in joint ventures	36,838	54,725
Deposits paid for acquisition of property, plant and equipment	902	14,491
	8,007,657	6,964,914
Current assets		
Inventories	166,711	171,218
Trade and other receivables	1,004,950	797,895
Prepaid lease payments	6,704	6,587
Amounts due from customers for contract work	298,291	311,243
Amounts due from associates	82,334	67,558
Amounts due from jointly controlled entities	69,723	46,255
Amounts due from related companies	50,317	101,784
Bank balances and cash	1,435,887	1,567,552
	3,114,917	3,070,092
Current liabilities		
Trade and other payables	1,838,912	1,625,959
Derivative financial instruments	52,389	46,012
Amounts due to customers for contract work	271,482	279,902
Amounts due to associates	85,815	56,320
Amounts due to jointly controlled entities	25,244	16,484
Amounts due to related companies	28,775	18,032
Taxation payable	46,278	36,088
Bank and other loans – due within one year	819,385	619,140
Financial guarantee liability	298	1,502
	3,168,578	2,699,439
Net current (liabilities) assets	(53,661)	370,653
	7,953,996	7,335,567
Capital and reserves		
Share capital	104,634	102,825
Reserves	3,177,322	2,953,835
Equity attributable to equity holders of the Company	3,281,956	3,056,660
Minority interests	820,057	811,768
	4,102,013	3,868,428
Non-current liabilities		
Bank and other loans – due after one year	2,288,926	1,750,738
Financial guarantee liability	1,841	1,228
Convertible bonds	–	127,597
Guaranteed notes	1,491,140	1,525,461
Deferred taxation	70,076	62,115
	3,851,983	3,467,139
	7,953,996	7,335,567

Notes

1. Basis of Preparation

The unaudited 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 (the "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 2006.

In preparing the Interim Financial Statements, the directors have given careful consideration of the Company and its subsidiaries (collectively the "Group") in light of its net current liabilities of RMB53,661,000 as at 30 June 2007. On the basis that the Group has secured credit facilities of approximately RMB232,000,000 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 and financial instruments, 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 2006 except for the below:

Acquisition of additional interest in subsidiary

On acquisition of additional interest in a subsidiary, the difference between the fair values and the carrying values of the underlying assets and liabilities attributable to the additional interest in a subsidiary acquired is charged to special reserve. Goodwill or discount arising on the purchase of the additional interest is calculated as the difference between the additional cost of the interest acquired and the increase in the Group's interest, based on the fair value of all identifiable assets and liabilities of the subsidiary.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment

The adoption of these new HKFRSs 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 or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-INT 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC)-INT 12	Service Concession Arrangements[3]

[1] *Effective for annual periods beginning on or after 1 January 2009.*
[2] *Effective for annual periods beginning on or after 1 March 2007.*
[3] *Effective for annual periods beginning on or after 1 January 2008.*

The directors of the Company are in the process of determining whether these new and revised standards and interpretations will have any material impact on the financial statements of the Group.

3. 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 2007

	Gas connection	Sales of piped gas	Distributions of bottled liquefied petroleum gas	Sales of gas appliances	Consolidation
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	776,937	1,340,480	152,238	39,955	2,309,610
Segment result before depreciation	524,516	267,877	3,212	9,920	805,525
Depreciation	-	(81,533)	-	-	(81,533)
Segment result	524,516	186,344	3,212	9,920	723,992
Unallocated other income					104,068
Unallocated corporate expenses					(419,416)
					408,644
Share of results of associates (Note)					(3,812)
Share of results of jointly controlled entities (Note)					22,679
Finance costs					(106,409)
Profit before taxation					321,102
Taxation					(69,620)
Profit for the period					251,482

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	3,020
Sale of piped gas	1,620	19,659
Other businesses not classified as a business segment	(5,893)	-
	(3,812)	22,679

Six months ended 30 June 2006

	Gas connection *RMB'000*	Sales of piped gas *RMB'000*	Distributions of bottled liquefied petroleum gas *RMB'000*	Sales of gas appliances *RMB'000*	Consolidation *RMB'000*
Revenue	583,036	696,170	129,529	41,427	1,450,162
Segment result before depreciation	433,945	146,608	3,026	9,053	592,632
Depreciation	-	(62,685)	-	-	(62,685)
Segment result	433,945	83,923	3,026	9,053	529,947
Unallocated other income					88,520
Unallocated corporate expenses					(345,828)
					272,639
Share of results of associates (Note)					3,388
Share of results of jointly controlled entities (Note)					14,154
Finance costs					(98,078)
Profit before taxation					192,103
Taxation					(25,752)
Profit for the period					166,351

Note: -

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

	Share of results of	
	Associates *RMB'000*	**Jointly controlled entities** *RMB'000*
Gas connection	(201)	15,634
Sale of piped gas	3,589	(1,480)
	3,388	14,154

4. Dividend

Final dividends in respect of 2006 of HK$7.75 cents per share or RMB77,274,000 were paid during the period.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: nil).

5. 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	
	2007	**2006**
	RMB'000	*RMB'000*
Earnings		**(Restated)**
Earnings for the purpose of basic earnings per share	175,497	125,252
Effect of dilutive potential ordinary shares:		
Fair value changes on convertible bonds	3,370	–
Earnings for the purpose of diluted earnings per share	178,867	125,252
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	980,799,944	919,001,474
Effect of dilutive potential ordinary shares:		
– share options	11,694,890	4,294,994
– convertible bonds	11,132,021	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,003,626,855	923,296,468

The computation of the diluted earnings per share for last period does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

The effect of change in accounting policy of convertible bonds resulting from change in functional currency of the Company in 2006 is summarised as follows:

	Six months ended 30 June 2006	
	Basic earnings per share	**Diluted earnings per share**
	cents	*cents*
As originally stated	14.8	14.3
Adjustment arising from change in accounting policies in 2006	(1.2)	(0.7)
As restated	13.6	13.6

BUSINESS REVIEW

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		**Increase**
	2007 (Unaudited)	**2006 (Unaudited and restated)**	**(Decrease)**
Revenue *(RMB)*	**2,309,610,000**	**1,450,162,000**	**59.3%**
Gross profit *(RMB)*	**771,475,000**	**508,325,000**	**51.8%**
Profit attributable to equity holders of the Company *(RMB)*	**175,497,000**	**125,252,000**	**40.1%**
Earnings per share – Basic *(RMB)*	**17.9 cents**	**13.6 cents**	**31.6%**
Connectable urban population	**39,417,000**	**33,615,000**	**17.3%**
Connectable residential households	**13,139,000**	**11,205,000**	**17.3%**
New natural gas connections made during the Period:			
– residential households	**225,606**	**194,787**	**15.8%**
– commercial/industrial ("C/I") customers	**837**	**603**	**38.8%**
– installed designed daily capacity for C/I customers *(m^3)*	**809,581**	**601,412**	**34.6%**
Accumulated number of natural gas customers:			
– residential households	**2,335,758**[(1)]	**1,783,150**[(2)]	**31.0%**
– C/I customers	**6,639**[(1)]	**4,670**[(2)]	**42.2%**
– installed designed daily capacity for C/I customers *(m^3)*	**5,183,417**[(1)]	**3,367,699**[(2)]	**53.9%**
Accumulated number of piped gas (including natural gas) customers:			
– residential households	**2,751,582**	**2,174,193**	**26.6%**
– C/I customers	**7,280**	**5,185**	**40.4%**
– installed designed daily capacity for C/I customers *(m^3)*	**5,835,242**	**4,051,134**	**44.0%**
Natural gas penetration rate	**17.8%**	**15.9%**	–
Piped gas (including natural gas) penetration rate	**20.9%**	**19.4%**	–
Unit of piped gas sold to residential households *(m^3)*	**183,188,000**	**158,265,000**	**15.7%**
Unit of piped gas sold to C/I customers *(m^3)*	**848,459,000**	**324,878,000**	**1.6 times**
Unit of bottled liquefied petroleum gas ("LPG") sold *(ton)*	**36,422**	**24,697**	**47.5%**
Number of vehicle refuelling stations	**72**	**47**	**25**
Number of natural gas processing stations	**77**	**73**	**4**
Total length of existing intermediate and main pipelines (*km*)	**10,058**	**8,446**	**19.1%**

Notes:

1. 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 868,146m^3) from acquisition/conversion.
2. Including a total of 619,048 natural gas residential customers and 1,412 natural gas C/I customers (with a total designed daily capacity of 662,707m^3) from acquisition/conversion.

Pipeline Construction

During the Period, gas connection fee revenue reached RMB776,937,000, representing an increase of 33.3% over the corresponding period last year and accounting for 33.7% of the total revenue. The average connection fees for residential households and commercial/industrial ("C/I") customers were RMB2,828 and RMB262 (per m^3) respectively. As compared to 2006, the average connection fees remained at same level, which reveals that China maintains a stable policy over connection fees.

Taking advantage of its industry experience and good management, the Group achieved sustained growth in the number of new connections. The new connections made to residential households and the designed daily capacity for C/I customers newly installed during the Period increased 15.8% and 34.6% respectively as compared to the corresponding period last year.

The liquefied natural gas ("LNG") import terminal in Shenzhen has come into commercial operation in the fourth quarter last year, which formally connect piped natural gas source for Dongguang, a large project of the Group. In addition, the coal conversion project in Erdos, Inner Mongolia, which is an upstream project with the Group's participation, has commenced its construction last year. 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 RMB1,340,480,000, representing an increase of 92.6% over the corresponding period last year and accounting for 58.0% of the total revenue. The sales volume of piped gas also increased by 1.1 times.

The growth of piped gas sales accelerates annually. The piped gas sales record its first time contributing over 50% of revenue, which shows that the Group has a more stable and long-term revenue base. The further decrease in reliance on one-off connection fee optimises the revenue structure. Moreover, the number of vehicle refuelling stations ("refuelling stations") has further increased from 57 by the end of 2006 to 72, whilst the gas sales to vehicles has increased by 4.2 times. Thanks to its contribution to environmental protection, refuelling stations which provide clean energy for vehicle refuelling, is expected to experience rapid business 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. The Group expects that the refuelling station business will become one of Group's major catalysts to increase long-term gas sales.

During the Period, bottled liquefied petroleum gas ("LPG") sales revenue reached RMB152,238,000, accounting for 6.6% of the total revenue.

Gross and Net Profit Margins

In the Period, the overall gross profit margin and net profit margin (after minority interests) of the Group were 33.4% and 7.6% respectively. As compared to the corresponding period last year, both gross profit margin and net profit margin decreased slightly.

The slight decreases in gross profit margin and net profit margin come from the continuous changes of the Group's revenue structure. The Group's major revenue is continuously shifting from higher margin one-off connection fee to relatively lower margin long-term piped gas sales. The share of connection fee over total revenue has fallen from 40.2% to 33.7% against the same period last year, whereas, the share of piped gas sales has increased immensely from 48.0% to 58.0%. It reveals the realization of the Group's strategy to focus on raising the penetration rate in existing gas projects whilst decreasing acquisition of new projects. The Group still maintained rapid growth along with its strategy.

New Projects

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

Province	City	Connectable urban population
Anhui	Quanjiao	110,000
Zhejiang	Ningbo (Yinzhou District)	234,000

Together with the newly acquired piped gas projects, the Group has increased the total number of city gas projects to 66, with the connectable urban population raised to 39,417,000 (representing about 13,139,000 households). The Group stake to its existing strategy in the acquisition of peripheral towns and cities near the existing gas projects, which could fortify the economies of scale for existing gas projects. For example, Quanjiao is near to an existing gas project, Chuzhou, the distance between two projects is only 18km. The acquisition of Quanjiao can further enhance the economies of scale of Chuzhou project.

Currently, the Group has an overall gas penetration rate of 20.9% only, and from the Group's past experience, the gas penetration rates can reach as high as 70% to 80%. In association with the rapid economic growth of China, the demand of natural gas from C/I customers is rocketing 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 2007, the total number of staff employed by the Group was 13,880, of which 9 were based in Hong Kong. The number of staff increased 3.9% as compared to last year end, to cope with various new projects obtained by the Group. The staff was remunerated at market level with benefits such as bonus, retirement benefit and share option scheme.

FINANCIAL RESOURCES REVIEW

Liquidity and Financial Resources

As at 30 June 2007, the Group's cash on hand was RMB1,435,887,000 (31 December 2006: RMB1,567,552,000), and its total debts amounted to RMB4,599,451,000 (31 December 2006: RMB4,022,936,000). Its net gearing ratio, i.e. the ratio of net debt to equity (excluding minority interests), was 96.4% (31 December 2006: 80.3%).

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, 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 2007, XGII and Mr. Wang together held 34.43% 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. Bondholders can exercise the conversion right between 15 December 2004 and 15 November 2009 and convert the CBs into ordinary shares of HK$0.10 each of the Company, and the Company has the option to issue shares or pay cash in lieu of shares to such bondholders. The conversion price for each ordinary share at the issue date of the CBs was HK$5.4375.

During the period, CBs in a principal amount of HK$91,300,000 (equivalent to RMB88,963,000) was converted into 16,790,798 ordinary shares of the Company. There were nil CBs outstanding 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 principle 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 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.

Borrowings Structure

As at 30 June 2007, the Group's total debts amounted to RMB4,599,451,000 (31 December 2006: RMB4,022,936,000), including loans and bonds of US$220,000,000 (equivalent to RMB1,673,650,000) and a mortgage loan of HK$8,389,000 (equivalent to RMB8,162,000). Apart from the fixed rate US$200,000,000 bonds, the other US dollar loans and the HK dollar mortgage loan bear interest at floating rates, and the remaining bank and other borrowings are denominated in Renminbi at fixed interest rates. The project companies used the Renminbi loans as their working capital and operational expenditure. Except for the loan amount equivalent to RMB1,634,211,000 that has to be secured by assets with the carrying amount equivalent to RMB114,845,000, all of the other loans are unsecured. Short-term loans were equivalent to RMB819,385,000 while the remaining were long-term loans falling due after more than a year.

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 has entered into interest rate swap contracts for the US dollar bonds. The Group will monitor the market trends of interest rates closely and make appropriate adjustments when necessary. All the interest hedging transactions the Group entered into were mainly for hedging against interest rate risks rather than for speculation purpose.

Financial Guarantee

As at 30 June 2007, the Group had issued guarantees to banks to secure loan facilities granted to an associate and a jointly controlled entity to the extent of RMB20,460,000 (31 December 2006: RMB40,000,000) and RMB60,000,000 (31 December 2006: RMB57,000,000) respectively, of which the amounts have been utilized at the balance sheet dates.

Capital Commitments

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Capital expenditure contracted for but not provided in the Interim Financial Statements in respect of acquisition of property, plant and equipment	30,548	32,716
Group's share of capital expenditure contracted for but not provided in an associate	---	919

PROSPECTS

The Group carries on its effort in acquisition of high-quality new piped gas projects, boosting gas penetration rates in our existing gas projects, developing compressed natural gas refuelling stations that can increase long-term natural gas sales and developing energy distribution channels to peripheral towns and cities of our gas projects, so as to have sustainable business expansion. The strategic adjustments have been duly executed. During the first half of 2007, piped gas sales has made up over half of the Group's revenue, (i.e. 58.0%), whilst the share of one-off connection fee has further declined to 33.7%. This leads the Group's way to develop into a real utilities company gradually with good and stable cash flow.

Under the considerable growth of the Group's gas sales volume, protection of gas sources are of utmost importance. After the Liquefied Natural Gas ("LNG") factory in Weizhou Island, Beihai City, Guangxi came into operation last year, the LNG import terminal in Shenzhen, Guangdong province has commenced gas supply in the fourth quarter of 2006, which is beneficial to a project of the Group, Dongguang. As China is planning and constructing more long distance pipelines, the Group can acquire more high-quality projects in the future and further diversify its gas sources.

In order to alleviate the disparity between demand and supply of natural gas, to enhance natural gas utilization structure and to facilitate the work for energy saving and emission reduction, the "Natural Gas Utilization Policy" (the "Policy") as approved by the State Council and drawn up by National Development and Reform Commission ("NDRC") has been formally released and executed on 30 August 2007. Under the Policy, natural gas is categorised into several types with the efficacy in social, environmental and economic dimensions considered. The types include prioritised type, approved type, restricted type and prohibited type, among which natural gas used by residential households, public services and facilities as well as vehicle-used natural gas are categorised into prioritised type. The gas utilization under prioritised type agrees with the business area of the Group. In addition, NDRC established a series of concrete protection measures in natural gas utilization. Constitution of the Policy reveals the rational attitude of China government in natural gas utilization. With the support of the Policy, the Group's gas sources are under fundamental protection.

Since the construction for a coal conversion project at Erdos, Inner Mongolia, which is one of Group's upstream investments, has been kicked off last year, the construction is progressing satisfactorily. It is expected that the project can come into production by 2009, which enables the Group to make use of dimethyl ether ("DME"), a kind of clean energy, as a substitute for part of natural gas and LPG directly. The gas sources have thus been further diversified with increased flexibility.

The Group has long been putting great emphasis on long-term sustainable development. In addition to having the gas source protection plan set since several years ago, the Group has implemented plans for development diversification including bottled LPG and energy sales to peripheral towns and cities. At the same time, the Group has started to build up an efficient Enterprise Resource Planning ("ERP") system to enhance internal resources utilization and internal control. The advanced system enables management to grasp more accurate and timely information every time a decision is to be made. This facilitates more effective realization of revenue increase, cost minimization and risk control, which would in turn maximise the benefit of all shareholders, employees and society. The Group can also make a contribution to environmental protection.

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 in September 2007 to review the unaudited interim financial report for the six months ended 30 June 2007. 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 2007 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 Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("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 Code on Corporate Governance Practices as set out in Appendix 14 of 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 29 May 2007 due to business trip. Alternatively, Mr. Yang Yu, the Chief Executive Officer of the Company, attended the said annual general meeting.

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 18 September 2007

As at the date of this announcement, the Board comprises of eight executive directors, namely WANG Yusuo (Chairman), Mr. YANG Yu (Chief Executive Officer), Mr. CHEN Jiacheng, Mr. ZHAO Jinfeng, Mr. QIAO Limin, Mr. YU Jianchao, Mr. CHEUNG Yip Sang and Mr. CHENG Chak Ngok; two non-executive directors, namely Ms. ZHAO Baoju and Mr. JIN Yongsheng; and three independent non-executive directors, namely Mr. WANG Guangtian, Ms. YIEN Yu Yu, Catherine and Mr. KONG Chung Kau.