ENN 新奥

新奥燃气控股有限公司
XinAo Gas Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2688)

(Website: www.xinaogas.com)

INTERIM RESULTS
Interim Results Announcement
For The Six Months Ended 30 June 2008

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 2008 (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 2008

		Six months ended 30 June	
		2008 (unaudited)	**2007 (unaudited and restated)**
	NOTES	*RMB'000*	*RMB'000*
Revenue	*3*	3,537,968	2,309,610
Cost of sales		(2,590,342)	(1,543,779)
Gross profit		947,626	765,831
Other income		133,969	93,214
Selling expenses		(56,490)	(32,450)
Administrative expenses		(437,717)	(357,599)
Fair value changes on derivative financial instruments		–	(6,377)
Fair value changes on convertible bonds		–	(3,370)
Impairment loss on goodwill		–	(50,605)
Share of results of associates		9,029	(3,812)
Share of results of jointly controlled entities		63,006	22,679
Finance costs		(184,290)	(106,409)
Profit before taxation		475,133	321,102
Taxation		(96,769)	(69,620)
Profit for the period		378,364	251,482
Attributable to:			
Equity holders of the Company		285,999	175,497
Minority interests		92,365	75,985
		378,364	251,482
Interim dividend	*4*	–	–
Earnings per share	*5*		
Basic		28.3 cents	17.9 cents
Diluted		27.7 cents	17.8 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2008

	At 30 June 2008 (unaudited) *RMB'000*	At 31 December 2007 (audited) *RMB'000*
Non-current assets		
Property, plant and equipment	7,163,159	6,760,741
Prepaid lease payments	476,715	432,479
Investment properties	76,027	94,450
Goodwill	153,630	153,630
Intangible assets	476,318	469,504
Interests in associates	335,086	386,111
Interests in jointly controlled entities	544,382	483,672
Available-for-sale investments	13,967	13,733
Loan receivable	15,000	-
Amount due from an associate	112,000	138,000
Amount due from a jointly controlled entity	20,000	89,000
Deposits paid	88,960	24,533
	9,475,244	9,045,853
Current assets		
Inventories	277,228	235,356
Trade and other receivables	1,112,548	1,069,957
Prepaid lease payments	9,582	9,026
Amounts due from customers for contract work	400,286	335,910
Amounts due from associates	65,765	48,585
Amounts due from jointly controlled entities	216,493	68,719
Amounts due from related companies	52,837	43,273
Cash and cash equivalents	2,126,918	1,693,459
	4,261,657	3,504,285
Non-current assets classified as held for sale	76,977	-
	4,338,634	3,504,285
Current liabilities		
Trade and other payables	2,426,966	2,205,060
Amounts due to customers for contract work	377,734	305,644
Amounts due to associates	93,140	116,411
Amounts due to jointly controlled entities	44,777	30,234
Amounts due to related companies	78,248	29,779
Taxation payable	16,819	35,846
Bank and other loans – due within one year	1,038,574	834,779
Short-term debentures	999,350	398,375
Financial guarantee liability	660	1,353
	5,076,268	3,957,481
Net current liabilities	(737,634)	(453,196)
Total assets less current liabilities	8,737,610	8,592,657
Capital and reserves		
Share capital	106,318	106,318
Reserves	3,800,422	3,629,229
Equity attributable to equity holders of the Company	3,906,740	3,735,547
Minority interests	948,685	925,111
Total equity	4,855,425	4,660,658
Non-current liabilities		
Bank and other loans – due after one year	2,400,750	2,387,513
Guaranteed notes	1,348,989	1,433,657
Deferred taxation	132,446	110,829
	3,882,185	3,931,999
	8,737,610	8,592,657

Notes

1. Basis of Preparation

The condensed consolidated financial statements (the "Interim Financial Statements") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

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

2. Principal Accounting Policies

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

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

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

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

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

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

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

[1] *Effective for annual periods beginning on or after 1 January 2009*

[2] *Effective for annual periods beginning on or after 1 July 2009*

[3] *Effective for annual periods beginning on or after 1 July 2008*

[4] *Effective for annual periods beginning on or after 1 October 2008*

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

3. Segment Information

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

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

Six months ended 30 June 2008

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

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

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

Six months ended 30 June 2007

	Gas connection	**Sales of piped gas**	**Distributions of bottled liquefied petroleum gas**	**Sales of gas appliances**	**Vehicle gas refuelling stations**	**Consolidation**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	776,937	1,223,209	152,238	39,955	117,271	2,309,610
Segment result before depreciation, amortisation and impairment loss on goodwill	582,583	240,041	5,362	10,672	27,836	866,494
Depreciation and amortisation	(13,106)	(80,788)	(2,150)	(752)	(745)	(97,541)
Impairment loss on goodwill	(50,605)	–	–	–	–	(50,605)
Segment result	518,872	159,253	3,212	9,920	27,091	718,348
Unallocated other income						90,091
Unallocated corporate expenses						(399,795)
						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	19,659
Sale of piped gas	(554)	3,020
Vehicle gas refuelling stations	2,174	–
Other businesses not classified as a business segment	(5,893)	–
	(3,812)	22,679

4. Dividend

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

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

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

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

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

Notes:

1. Including a total of 623,900 natural gas residential customers and 1,526 natural gas C/I customers (with a total designed daily capacity of 831,451m^3) from acquisition/conversion.
2. Including a total of 695,591 natural gas residential customers and 1,582 natural gas C/I customers (with a total designed daily capacity of 868,146m^3) from acquisition/conversion.

Pipeline Construction

During the Period, gas connection fee revenue reached RMB898,314,000, representing an increase of 15.6% over the corresponding period last year and accounting for 25.4% of the total revenue. The average connection fees for residential households and commercial/industrial ("C/I") customers were RMB2,397 and RMB192 (per m^3) respectively. As compared to the figure in 2007, the average connection fees for residential households remained at the same level during the Period, which reveals that China maintains a stable policy over connection fees. On the other hand, the Group provided special offers on gas connection fee to C/I customers in order to boost the gas sales.

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

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

Gas Sales

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

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

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

Gross and Net Profit Margins

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

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

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

New Projects

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

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

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

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

Human Resources

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

FINANCIAL RESOURCES REVIEW

Liquidity and Financial Resources

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

Under the US$25,000,000 Loan Agreements with International Finance Corporation ("IFC"), the private sector arm of the World Bank Group, and the subsequent amendment on the requirement thereafter, the Company, Mr. Wang Yusuo ("Mr. Wang") and the Borrowers (i.e. Bengbu Xinao Gas Company Limited, Shijiazhuang Xinao Gas Company Limited and Xiangtan Xinao Gas Company Limited, all being subsidiaries of the Company) have entered into the Share Retention Agreements with IFC on 18 May 2004 whereby Mr. Wang has agreed that, so long as any monies remain due or to become due and owing by the Borrowers to IFC under or in respect of the Loan Agreements, he and Ms. Zhao Baoju ("Ms. Zhao") will own, in aggregate, directly or, at any time that he and Ms. Zhao own in aggregate all the shares of Xinao Group International Investment Limited ("XGII"), indirectly through XGII, at least 27% of the issued share capital of the Company. Mr. Wang and Ms. Zhao are the beneficial and legal owners of XGII, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. As at 30 June 2008, XGII and Mr. Wang together held 33.24% interests of the Company.

Five-year Zero Coupon Convertible Bonds

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

Seven-year 7.375% Fixed Rate Bonds
On 5 August 2005, the Company issued 7-year bonds in the aggregate principal amount of US$200,000,000 (equivalent to RMB1,614,040,000) with issue price and redemption price of 100%, which are unconditionally and irrevocably guaranteed by the guarantor subsidiaries. The guarantor subsidiaries are wholly-owned subsidiaries of the Company and are primarily holding companies that operate through their subsidiaries. The coupon of the bonds is 7.375%, and interests are paid semi-annually.

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

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

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

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

Capital Commitments

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

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

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

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters. Members of the Audit Committee are Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau, who are all independent non-executive Directors. An audit committee meeting was held on 17 September 2008 to review the unaudited interim results and interim financial report for the six months ended 30 June 2008. Deloitte Touche Tohmatsu, the Group’s external auditors, have carried out a review of the unaudited interim financial report for the six months ended 30 June 2008 in accordance with the Hong Kong Standard on

Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 18 September 2008

As at the date of this announcement, the Board comprises 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.