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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 2009

The Board of Directors (the "Board") 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 2009 (the "Period"). The unaudited condensed consolidated financial statements have been reviewed by the Company's auditors and audit committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2009

		Six months ended 30 June	
		2009	**2008**
		(unaudited)	**(unaudited)**
	NOTES	*RMB'000*	*RMB'000*
Revenue	*3*	4,016,415	3,537,968
Cost of sales		(2,791,900)	(2,590,342)
Gross profit		1,224,515	947,626
Other income		42,853	133,969
Selling expenses		(67,550)	(56,490)
Administrative expenses		(384,379)	(441,885)
Impairment loss on property, plant and equipment		(12,536)	–
(Impairment) reversal of impairment on trade and other receivables, net		(78,237)	4,168
Share of results of associates		10,853	9,029
Share of results of jointly controlled entities		82,828	63,006
Finance costs		(174,428)	(184,290)
Profit before taxation		643,919	475,133
Taxation	*4*	(148,748)	(96,769)
Profit for the period and total comprehensive income for the period		495,171	378,364
Profit for the period attributable to:			
Owners of the Company		374,224	285,999
Minority interests		120,947	92,365
		495,171	378,364
Total comprehensive income attributable to:			
Owners of the Company		374,224	285,999
Minority interests		120,947	92,365
		495,171	378,364
Earnings per share	*6*		
Basic		36.9 cents	28.3 cents
Diluted		N/A	27.7 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2009

	At 30 June 2009 (unaudited) *RMB'000*	At 31 December 2008 (audited) *RMB'000*
Non-current assets		
Property, plant and equipment	8,188,085	7,855,387
Prepaid lease payments	484,166	472,228
Investment properties	63,005	63,005
Goodwill	168,926	168,926
Intangible assets	453,348	464,712
Interests in associates	303,249	292,483
Interests in jointly controlled entities	783,743	757,620
Available-for-sale investments	13,956	13,956
Loan receivable	9,000	12,000
Amount due from a jointly controlled entity	69,000	20,000
Deposits paid for investments in subsidiaries	65,000	96,228
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights	15,759	3,800
	10,617,237	10,220,345
Current assets		
Inventories	250,377	254,060
Trade and other receivables	1,366,191	1,431,087
Prepaid lease payments	10,857	9,354
Amounts due from customers for contract work	499,326	495,318
Amounts due from associates	20,034	17,630
Amounts due from jointly controlled entities	217,925	207,350
Amounts due from related companies	56,752	57,022
Restricted bank deposits	83,200	79,817
Fixed bank deposits	230,000	-
Cash and cash equivalents	1,988,461	1,725,358
	4,723,123	4,276,996
Non-current assets classified as held for sale	-	76,977
	4,723,123	4,353,973
Current liabilities		
Trade and other payables	2,584,941	2,752,280
Amounts due to customers for contract work	486,431	465,606
Amounts due to associates	66,849	46,502
Amounts due to jointly controlled entities	203,244	102,884
Amounts due to related companies	25,177	35,507
Taxation payable	53,958	75,932
Bank and other loans – due within one year	2,501,737	1,239,450
Short-term debentures	-	630,043
Financial guarantee liability	3,848	4,384
Deferred income - current portion	6,892	692
	5,933,077	5,353,280
Liability associated with assets classified as held for sale	-	75,000
	5,933,077	5,428,280
Net current liabilities	(1,209,954)	(1,074,307)
Total assets less current liabilities	9,407,283	9,146,038
Capital and reserves		
Share capital	109,879	106,318
Reserves	4,599,047	4,149,253
Equity attributable to owners of the Company	4,708,926	4,255,571
Minority interests	1,234,884	1,185,869
Total equity	5,943,810	5,441,440

Non-current liabilities

Bank and other loans – due after one year	1,875,622	2,186,720
Guaranteed notes	1,349,173	1,346,927
Deferred taxation	160,268	150,873
Deferred income - non-current portion	78,410	20,078
	3,463,473	3,704,598
	9,407,283	9,146,038

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 2008.

In preparing the Interim Financial Statements, the directors of the Company (“Directors”) have given careful consideration of the Group in light of its net current liabilities of RMB1,209,954,000 as at 30 June 2009. On the basis that the Group has the fund raised from the issue of short-term debenture of RMB800,000,000 subsequent to the reporting date and secured credit facilities of approximately RMB1,118,336,000 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 2008.

In the Period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2009.

HKFRS 8 "Operating Segments" is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, but some changes in presentation and disclosure has been made (see note 3).

HKAS 1 (revised 2007) "Presentation of Financial Statements" has introduced a number of terminology changes and has resulted in a number of changes in presentation and disclosure. The consolidated statement of comprehensive income includes all items disclosed in the former consolidated income statement and additional disclosure in other comprehensive income. The name of consolidated balance sheet and consolidated cash flow statement has now changed into the consolidated statement of financial positions and consolidated statement of cash flows respectively with all contents remain the same.

The adoption of the new and revised HKFRSs has had no material impact on the reported results and financial position of the Group for 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.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction[3]
HKFRS 3 (Revised)	Business Combinations[1]
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) - Int 18	Transfers of Assets from Customers[4]

1 Effective for annual periods beginning on or after 1 July 2009

2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

3 Effective for annual periods beginning on or after 1 January 2010

4 Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (revised) may affect the Group's 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 the Group's ownership interest in a subsidiary. 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 has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group and regularly reviewed by the chief operating decision maker, the Company's Chief Executive Officer (the "CEO"), in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments.

Information reported to the CEO for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services. As this is also the basis of designation of the Group's reportable segments under HKAS 14, the application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments.

Segment information reported for the prior period has been restated to conform with current period presentation.

The following is an analysis of the Group's revenue and results by operating segment for the periods under review:

Six months ended 30 June 2009

	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 from external customers	1,182,883	1,792,007	597,768	44,645	399,112	4,016,415
Segment profit before depreciation and amortisation	726,319	501,319	9,441	14,610	106,786	1,358,475
Depreciation and amortisation	(24,099)	(100,244)	(2,417)	(1,042)	(6,158)	(133,960)
Segment profit	702,220	401,075	7,024	13,568	100,628	1,224,515
Other income						42,853
Selling expenses						(67,550)
Administrative expenses						(384,379)
Impairment loss on property, plant and equipment						(12,536)
Impairment on trade and other receivables, net						(78,237)
Share of results of associates						10,853
Share of results of jointly controlled entities						82,828
Finance costs						(174,428)
Profit before taxation						643,919
Taxation						(148,748)
Profit for the period						495,171

Six months ended 30 June 2008 (restated)

	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 from external customers	898,314	1,476,991	864,479	35,327	262,857	3,537,968
Segment profit before depreciation and amortisation	554,070	406,822	10,581	10,927	77,001	1,059,401
Depreciation and amortisation	(23,581)	(80,437)	(2,017)	(939)	(4,801)	(111,775)
Segment profit	530,489	326,385	8,564	9,988	72,200	947,626
Other income						133,969
Selling expenses						(56,490)
Administrative expenses						(441,885)
Reversal of impairment on trade and other receivables, net						4,168
Share of results of associates						9,029
Share of results of jointly controlled entities						63,006
Finance costs						(184,290)
Profit before taxation						475,133
Taxation						(96,769)
Profit for the period						378,364

Segment profit represents the gross profit earned by each segment without allocation of selling expenses, administrative expenses, other income, impairment loss on property, plant and equipment, (impairment) reversal of impairment on trade and other receivables (net), share of results of associates and jointly controlled entities and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

4. Taxation

	Six months ended 30 June	
	2009	**2008**
	RMB'000	*RMB'000*
PRC Enterprise Income Tax	139,353	80,339
Deferred taxation	9,395	16,430
	148,748	96,769

PRC Enterprise Income Tax of the Group mainly comprises income tax of the Company and its subsidiaries which are recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 25% for the six months ended 30 June 2009 (2008: 25%).

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

The movements of deferred taxation for the period are as follows:

	Attributable to					
	Valuation of properties	**Intangible assets**	**Capitalisation of interest in property, plant and equipment**	**Undistributed retained profit of PRC entities**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(note)		
At 1 January 2009	12,648	91,790	26,842	23,112	(3,519)	150,873
(Credit) charge to income statement for the Period	-	(2,316)	1,845	9,818	48	9,395
At 30 June 2009	12,648	89,474	28,687	32,930	(3,471)	160,268

Note: The amount represents deferred taxation in respect of the temporary differences attributable to the undistributed retained profits earned after 1 January 2008 by the group entities registered in the People's Republic of China (the "PRC"). The amount has been provided based on the temporary differences that the Director considers to be probably reversed in the foreseeable future upon distribution of profit by the respective group entities located in the PRC to non-PRC shareholders.

5. Dividend

The final dividend in respect of 2008 of HKD17.71 cents (equivalent to approximately RMB15.62 cents) per share (2008: final dividend in respect of 2007 of HKD13.42 cents (equivalent to approximately RMB12.57 cents) per share) amounting to approximately RMB157,644,000 (2008: RMB119,136,000) were paid during the Period.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: nil).

6. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2009	**2008**
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share (profit for the period attributable to owners of the Company)	374,224	285,999

	Six months ended 30 June	
	2009	**2008**
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,014,891,828	1,009,759,397
Effect of dilutive potential ordinary shares arising from share options		20,922,706
Weighted average number of ordinary shares for the purpose of diluted earnings per share		1,030,682,103

No diluted earnings per share is presented as at 30 June 2009 as all the share options has been exercised in June 2009 and the Group has no dilutive potential ordinary shares as at 30 June 2009.

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		
	2009 (Unaudited)	**2008 (Unaudited)**	**Increase/ (Decrease)**
Revenue (RMB)	4,016,415,000	3,537,968,000	13.5%
Gross profit (RMB)	1,224,515,000	947,626,000	29.2%
Profit attributable to owners of the Company (RMB)	374,224,000	285,999,000	30.8%
Earnings per share – Basic (RMB)	36.9 cents	28.3 cents	30.4%
Connectable urban population	41,874,000	40,469,000	3.5%
Connectable residential households	13,958,000	13,490,000	3.5%
New natural gas connections made during the Period:			
– residential households	356,675	285,158	25.1%
– commercial/industrial ("C/I") customers (sites)	1,196	910	286
– installed designed daily capacity for C/I customers (m^3)	1,394,926	1,136,349	22.8%
Accumulated number of connected natural gas customers:			
– residential households	4,045,135(1)	2,887,114(2)	40.1%
– C/I customers (sites)	12,064(1)	8,685(2)	3379
– installed designed daily capacity for C/I customers (m^3)	10,457,977(1)	7,639,664(2)	36.9%
Accumulated number of connected piped gas (including natural gas) customers:			
– residential households	4,210,159	3,313,919	27.0%
– C/I customers (sites)	12,495	9,379	3116
– installed designed daily capacity for C/I customers (m^3)	10,919,138	8,315,765	31.3%
Natural gas penetration rate	29.0%	21.4%	7.6%
Piped gas (including natural gas) penetration rate	30.2%	24.6%	5.6%
Unit of piped gas sold to residential households (m^3)	263,636,000	220,756,000	19.4%
Unit of piped gas sold to C/I customers (m^3)	887,087,000	879,389,000	0.9%
Unit of gas sold to vehicles (m^3)	187,522,000	131,297,000	42.8%
Unit of bottled liquefied petroleum gas ("LPG") sold (ton)	248,052	219,651	12.9%
Number of vehicle refuelling stations	141	98	43
Number of natural gas processing stations	91	86	5
Total length of existing intermediate and main pipelines (km)	13,222	11,704	13.0%

Notes:

1. Including a total of 1,000,984 natural gas residential customers and 2,071 natural gas C/I customers (with a total designed daily capacity of 1,067,016 m^3) from acquisition/conversion.
2. 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.

Pipeline Construction

During the Period, gas connection fee revenue reached RMB1,182,883,000, representing an increase of 31.7% over the corresponding period last year and accounting for 29.5% of the total revenue. The average connection fees for residential households and C/I customers were RMB2,742 and RMB219 (per m^3) respectively. As compared to the figure in 2008, the average connection fees for residential households increased during the Period, which reveals that China maintains a stable policy over the charge of connection fees. On the other hand, the Group constantly provides C/I customers with promotions on connection fee 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 25.1% and 22.8% respectively as compared to the corresponding period last year.

Following the operation of the liquefied natural gas ("LNG") terminal in Fujian Province during 2009, the gas supply for the Group's seven projects in the Fujian province, including the one in Quanzhou city, an important industrial centre in South-East China, has been further secured. In addition, after the commencement of construction work of the West-East Pipeline II and the Sichuan-East Pipeline which will be completed phase by phase starting from 2009, the sufficient gas supply will facilitate more connections to both residential households and C/I customers and strengthen the Group with more stable and long-term revenue.

Gas Sales

During the Period, piped gas sales revenue reached RMB1,792,007,000, representing an increase of 21.3% over the corresponding period last year and accounting for 44.6% of the total revenue.

Sales of piped gas and vehicle gas continue to accelerate, making up 54.5% — more than half 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 gas refuelling stations ("refuelling stations") has further increased from 98 to 141 compared with the same period last year, whilst the number of refuelling stations that are under construction or have already been built and will come into operation was 39. As a result, the gas sales to vehicles increased by 51.8% as compared to the corresponding period last year. Thanks to its contribution to environmental protection, the great reduction in fuel cost for vehicle users and the rapid increase in the number of vehicles in China, natural gas refuelling station business which provides clean energy as a substitute for gasoline for vehicle use is expected to experience rapid growth continuously. The Group can thus further optimise its current advantage on gas sources and 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.

During the Period, sales revenue from bottled LPG reached RMB597,768,000, representing a decrease of 30.9% as compared to the corresponding period last year, leading to a shrink in its share over the total revenue from 24.4% in the corresponding period last year to 14.9%. Given the drop in the sales of bottled LPG, the Group allocates more resources to gas connections and sales of natural gas which can both generate higher margins.

Gross and Net Profit Margins

During the Period, the overall gross profit margin and net profit margin (before minority interests) of the Group were 30.5% and 12.3% respectively, both showing an increase as compared to the corresponding period last year.

The increase in gross profit margin mainly comes from the continuous improvement in the Group's revenue structure. During the Period, the Group has reduced the bottled LPG business, and as a result the share of revenue from bottled LPG over total revenue decreased from 24.4% to 14.9% as compared to the corresponding period last year. Since the margins of bottled LPG business is significantly lower than that of gas connections and piped gas sales, the shrink in the bottled LPG segment contributes to the increase in the Group's overall gross profit margin.

As for the increase in net profit margin, in addition to the abovementioned factor which helps stimulate the increase in gross profit margin, the effective cost control by the Group also plays a significant role. As a result of the cost control, the ratio of administrative expenses (including (impairment) reversal of impairment on trade and other receivables, net) to revenue decreases further from 12.4% to 11.5% as compared to the corresponding period last year. Moreover, in light of the further growth in the business of the Group, the share of results of associates and jointly controlled entities increased by 20.2% and 31.5% respectively as compared to the corresponding period last year, which in turn provides a good foundation for the Group's profits and cash flows.

New Projects

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

Province	**City**	**Connectable urban population**
Henan	Yichuan	80,000
Hebei	Luanxian	100,000
Jiangxi	Sanghai	50,000

Together with the abovementioned newly acquired piped gas projects, the Group has increased the total number of city gas projects to 75, with the connectable urban population raised to 41,874,000 (representing about 13,958,000 households). Currently, the Group is operating vehicle gas refuelling stations in 43 cities, among which 11 were not piped gas project cities of the Group. It is the Group's plan to expand the vehicle gas refuelling business to more and more cities. During the Period, the Group stuck to its existing strategy of acquiring peripheral towns and cities near existing gas projects and obtaining strategic projects, so that the economies of scale for existing gas projects could be fortified while the strategic planning of the Group's future development could be enhanced. For example, the new project Yichuan is located next to Luoyang, one of our existing gas projects. In Yichuan, power generation industry and aluminum processing industry are comparatively more well-developed. It is one of the counties where the West-East Pipeline II passes through and is also where the distributing station supplying gas to the urban area of Luoyang and peripheral counties is located. In view of the above, Yichuan enjoys exceptional and advantageous geographical location and operational conditions; Situated at the north-east of Hebei Province, Luanxian is very well-developed in terms of its glass and refractory material industry and has a heavy consumption of gas; Sanghai is located in Nanchang City of Jiangxi Province. Sanghai Development Zone, the Group's operational area in this project city, is the key development zone in that province and the pharmaceutical industry there is booming. Being the first gas project of the Group in the Jiangxi Province, the Sanghai project has established a good foundation for further business development of the Group in the province.

Given the Group's strategy of acquiring projects with low gas penetration rates, currently, the overall gas penetration rate of the Group's projects is 30.2% only. From the Group's past experience, the gas penetration rates can reach as high as 70% to 80%. In view of the huge number of connectable but not yet connected population under the coverage of the Group's projects which have obtained exclusive operational rights, the low gas penetration rate not only shows that the Group is still at the rapid development stage but also ensures good revenue in the future.

Human Resources

As at 30 June 2009, the total number of staff employed by the Group was 16,390, of which 11 were based in Hong Kong. The number of staff increased by 3.9% as compared to last year end to cope with the needs arising from new projects and business development of 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 2009, the Group's cash on hand (including fixed bank deposit) was equivalent to RMB2,218,461,000 (31 December 2008: RMB1,725,358,000), and its total debts amounted equivalent to RMB5,726,532,000 (31 December 2008: RMB5,403,140,000). Its net gearing ratio, i.e. the ratio of net debt to equity (including minority interests), was 59.0% (31 December 2008: 67.6%).

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 2009, XGII and Mr. Wang together held 32.09% interests of the Company.

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 2009, the Group's total debts amounted equivalent to RMB5,726,532,000 (31 December 2008: RMB5,403,140,000), including loans and bonds of US$220,153,000 (equivalent to RMB1,486,737,000) and mortgage loans of HK$141,605,000 (equivalent to RMB124,829,000). Apart from the US$200,000,000 bonds 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 RMB1,752,025,000 that are secured by assets with the carrying amount equivalent to RMB162,032,000, all of the other loans are unsecured. Short-term loans were equivalent to RMB2,501,737,000 while the remaining were long-term loans falling due after one year or above.

As all the operations of the Group are in China, 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 2009, the Group had issued guarantees to banks to secure loan facilities granted to associates to the extent of RMB60,000,000 (31 December 2008: RMB60,000,000). No guarantee is issued in respect of any loan facilities granted to the jointly controlled entities of the Group (31 December 2008: Nil). The amounts have been utilized at the balance sheet date.

Capital Commitment

	At 30 June 2009 *RMB'000*	**At 31 December 2008** *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	56,684	45,408
Capital commitment in respect of investment in jointly controlled entities	33,620	32,400
Group's share of capital commitments contracted but not provided in respect of its jointly controlled entities	742	1,076

PROSPECTS

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 in recent years, boost the gas penetration rates of our existing gas projects, develop the business of compressed natural gas (as a substitute for 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. During the first half of 2009, the gas penetration rate of the Group increased from 24.6% as recorded in the first half of last year to 30.2%, bringing more stable revenue and cash flows to the Group.

With the continuous growth in the Group's gas sales volume, secured gas supply is of utmost importance. Following the operation of the LNG import terminal in Putian, Fujian Province during the Period, the Group has also entered into a take-or-pay contract in relation to that terminal with CNOOC. This enables the Group to enjoy a more secured gas supply for its projects. Meanwhile, the construction of the

West-East Pipeline II and Sichuan-East Pipeline connecting the eastern and western region of China has also been kicked off. Consequently, these new gas sources fundamentally secure the gas supply for the Group's piped natural gas projects in Guangdong Province, Guangxi Autonomous Region, Fujian Province and Zhejiang Province. In addition to these large-scale natural gas infrastructure projects by the State, the Group also develops its own upstream projects such as the investments in LNG plants located in Jincheng of Shanxi Province and Yinchuan of Ningxia Autonomous Region which were completed and come into production during the Period respectively. The annual LNG production capacity of these two projects reached over 300million m^3 and can benefit more downstream projects of the Group. At the same time, we will spare no efforts in seeking opportunities for developing other upstream projects with an aim to offer stronger protection to the Group's gas supply.

The sustained 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 increase in energy consumption efficiency and decrease in cost resulted from the improvement of technology, and enhancement in the public awareness of environmental protection, efficient use of clean energy has now gained wider recognition in the society. After years of excellent operation, the Group has built a strong brand identity and extensive customer resources. It has also taken a proactive stance to formulate new business model. On the other hand, primarily through the provision of comprehensive regional clean energy solutions, the Group has formulated various energy distribution systems and established supply models for multi-energy products including gas, photoelectricity and calorific capacity. By applying its extensive experience and utlising its advantage on advanced information systems, the Group has exercised effective management on the energy business and provide energy management services to its customers. As of to-date, the Group has entered into cooperation framework agreements with 11 cities or parks for the purpose of providing comprehensive clean energy solutions to such cities, parks and enterprises, promoting the use of clean energy, enhancing the efficient use of energy, reducing pollution and minimising emission. This enables the Group to, besides becoming a regional provider of comprehensive solutions on clean energy, energy saving and emission reduction, enhance its revenue base and earnings level 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 saving and emission reduction.

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 utilisation and strengthening internal control.

Under the global financial tsunami occurred last year, China still maintains healthy growth in respect of its economic development as compared to most countries and regions in other parts of the world. Also, contributed by the recovery of the property market during the Period and the stability feature of the public utilities sector, the Group has delivered impressive performance during the Period with a growth rate exceeding the original target set at the beginning of the year.

As for the macro environment, the Chinese government has devoted a great deal of effort in promoting the development of clean energy, new energy and renewable energy. Various laws and plans in relation to energy development have also been introduced by the Chinese government to support the promotion of energy. One of the examples of the supporting actions taken by the government is the development of energy infrastructure projects which includes construction of long distance natural gas pipelines. With such strong support from the government, and complemented by the energy services business vigorously promoted by the Group, sound management as well as the effective use of resources, the Group believes that, besides making contribution to environmental protection, the benefits of all shareholders and employees and the utilisation of social resources will also be maximised 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 14 September 2009 to review the unaudited interim results and interim financial report for the six months ended 30 June 2009. 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 2009 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

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 for Securities Transactions by Directors of Listed Issuers (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 26 May 2009 due to business trip. Alternatively, Mr. Cheng Chak Ngok, the Executive Director and Company Secretary 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, 15 September 2009

As at the date of this announcement, the Board comprises the following Directors:

Executive Directors:
Mr. Wang Yusuo (Chairman)
Mr. Chen Jiacheng (Chief Executive Officer)
Mr. Zhao Jinfeng
Mr. Yu Jianchao
Mr. Cheung Yip Sang
Mr. Cheng Chak Ngok
Mr. Liang Zhiwei
Ms. Zhai Xiaoqin

Non-executive Directors:
Ms. Zhao Baoju
Mr. Jin Yongsheng

Independent Non-executive Directors:
Mr. Wang Guangtian
Ms. Yien Yu Yu, Catherine
Mr. Kong Chung Kau