

## **FINANCIAL REVIEW**

For the six months ended 30 June 2002 (the “Relevant Period”), the Group’s (Xiniao Gas Holdings Limited (the “Company”) and together with its subsidiaries) turnover increased by 68.9% to RMB167,243,000 as compared to the corresponding period last year. Among them gas connection fees and gas usage charges accounted for RMB98,598,000 and RMB68,067,000 respectively, representing an increase of 27.7% and 2.18 times over the corresponding period last year. During the Relevant Period, gross profit of the Group increased by 46.9% to RMB86,616,000 and gross profit margin decreased from 59.5% to 51.8% when compared with the corresponding period last year. The decrease in gross profit margin was mainly attributable to the change in the proportion of income derived from gas connection fees and gas usage charges. During the Relevant Period, the share of gas connection fees and gas usage charges of the Group as a proportion of total income has changed from 78.0% and 21.6% of the corresponding period last year to 59.0% and 40.7%. The increase in gas usage charges was mainly resulted from the increasing sales of Liquefied Petroleum Gas (“LPG”) by Bengbu Xiniao. Bengbu Xiniao was established last year by the Group and is the major supplier of LPG in Bengbu, Anhui Province and the neighbouring markets, its sales reached RMB45,800,000 during the Relevant Period. As the gross profit of the sales of LPG is generally lower than that of natural gas, the consolidated gross profit margin of the Group declined accordingly. However, LPG is only a transitional gas source and will be gradually replaced by natural gas.

The Group’s operating profit increased by 32.7% to RMB58,882,000 as compared to the corresponding period last year. Profit attributable to the shareholders was RMB40,459,000 during the Relevant Period. If the relevant listing expenses of RMB5,421,000 for the Company’s transferring of its listing status to the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 3 June 2002 was excluded, profit attributable to the shareholders would be RMB45,880,000, representing an increase of 63.8% as compared to the same period last year. On this profit basis, the earnings per share would be RMB6.69 cents, representing an increase of 14.2% when compared to the corresponding period last year.

As at 30 June 2002, the Group was in a net cash position with cash on hand of RMB550 million, while the total bank borrowing was RMB230 million. Notwithstanding the net cash position, the Group is still actively pursuing to obtain syndicated loan to support the Company’s strategy to expand into major cities. As the interest rate and the related expenditures of syndicated loan are both lower under the current environment, the Group would thus able to obtain sufficient funds at a lower cost. Moreover, the Group is one of the first Chinese private enterprises to arrange syndicated loan in Hong Kong. This has demonstrated the confidence of banks in the Group.

## **BUSINESS REVIEW**

During the Relevant Period, development of the Group’s new projects have been progressing smoothly. Last year, the Group has conducted a market research on more than 40 cities including of Provinces Henan, Shandong, Jiangsu, Anhui, Zhejiang, Shanghai, Hebei. Among them, 20 cities have been shortlisted as the focus for 2002 whilst the Company has set a target in securing 6 to 8 cities with population of more than 300,000 each for 2002.

The Group has devolved considerable efforts to marketing cities along the West to East Pipelines and other cities with good potentials. From 1 January 2002 to the date of this report, the Group has secured exclusive rights for the construction and operations of natural gas distribution pipeline network in the following cities. Except for Xinxiang project of Henan Province, all new projects have been incorporated:

Anhui Province:	Chuzhou, Liuan
Jiangsu Province:	Yancheng, Huaian, Haian
Zhejiang Province:	Anji
Shandong Province:	Rizhao

The number of cities the Group has secured exclusive rights has increased from 15 cities at the end of 2001 to 24 cities as at the date of this report. Coverage of connectable population has also increased from 3,400,000 to more than 6,500,000. Most of this year's targets have been accomplished. This demonstrates the huge gas market opportunity and the Group's ability to secure more new projects. In the second half of the year, the Group will continue to secure potential new projects. During the Relevant Period, the number of projects in operation has also increased from 12 cities at the end of last year to 17 cities at the end of June 2002. The following projects have started operation during the Relevant Period:

Shandong Province:	Laiyang Xinao, Zouping Xinao
Jiangsu Province:	Taixing Xinao, Yancheng Xinao
Anhui Province:	Bengbu Xinao

In addition, the Group has secured the right to construct a CNG station in Yancheng and the registration procedure for Yancheng Xinao Compressed Natural Gas Limited has completed in June 2002. It is expected that the supply of gas will commence in October 2002. Yancheng Gasfield is the only natural gas source in Jiangsu Province and the construction of Yancheng Xinao CNG Station is of strategic importance to the Group's market development in Jinagsu Province as it will be the sole supplier of CNG in Jiangsu Province.

During the Relevant Period, the Group has made new gas connections to 22,878 households and 67 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of 53,891 cubic meters), representing an increase of 21.2% and 1.48 times (in terms of designed daily capacity) respectively as compared to the end of last year. As at 30 June 2002, the Group has made gas connections for a total of 130,879 households and 422 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of 323,638 cubic meters). The increase in gas connections is attributable to the Group's active development of new gas projects, intensive marketing efforts on the existing projects that leads to increased penetration rate of the existing projects cities, and public awareness of the benefits of natural gas over other kinds of energy.

As to gas sales, the Group has sold a total of 5,635,662 cubic meters of natural gas and 16,682 tons of LPG to residential customers and 13,532,832 cubic meters to commercial and industrial customers. Besides, the Group further enhanced its quality and safety management system. In particular, Liaocheng Xinao and Huludao Xinao have obtained the ISO 9001 quality accreditation.

Together with Langfang Xinao which passed the accreditation last year there are three gas companies within the Group that have passed the ISO 9001 quality accreditation.

In terms of customer services management, the Group has perfected the call center system of Langfang Xinao and completed the construction of call centre of Huludao Xinao. Furthermore, it is expected that the construction of the call centres of Bengbu Xinao and Liaocheng Xinao will be completed in the second half of the year. Application for the special service number “95158” for new project cities such as Yancheng and Xinxiang is expected to be received in the second half of the year. Number “95158” is a national standardised number that is important to improve customer service efficiency and enhance the brandname of “Xinao Gas”.

In respect of inventory management, the Group has been promoting the implementation of inventory management software. Combined with the policy on stock management, efficiency of inventory management and material usage for construction work was enhanced. In addition, the Group has started the planning of information resources in Langfang Xinao to improve work efficiency and simplify work flow.

The Group has accelerated the construction of gas processing stations and pipelines. During the Relevant Period, the Group constructed approximately 94 km of intermediate pipeline and main pipeline. As at 30 June 2002, the Group owns 558 km of intermediate pipelines and main pipelines. Currently, the Group owns 14 natural gas processing stations. In the second half of the year, the construction of processing stations for the Group’s projects in 12 cities including Miyun in Beijing Municipality, Xinxiang in Henan Province, Laiyang and Rizhao in Shandong Province, Chuzhou in Anhui Province, Taixing and Yancheng in Jiangsu Province will commence. It is expected that these stations will become operational by the end of this year.

## **PROSPECTS**

Looking forward, the Board of Directors of the Company (the “Directors”) is confident with the future outlook of the Group. Natural gas, being a clean and efficient source of energy, is attracting and increasing public attention and is being heavily promoted by the Central and local governments in supporting for its usage. In the coming few years, the Group will continue securing high quality new project cities. The Group has set a development target to secure 6 to 8 new project cities with connectable population of around 300,000 to 1,500,000 each between 2002-2005.

At the same time of capturing market share, the Group will also focus its resource to accelerate the construction of natural gas infrastructure, to improve penetration rate in the existing project cities, including the balanced development of commercial and industrial consumers and residential consumers, and to assure the long-term interests of the Group. Meanwhile the Group has secured a number of gas projects since 2000 and these projects are expected to contribute to the Group’s revenue and profit, further strengthened the Group’s profit and result in good return to the shareholders.

Since the beginning of this year, the Group have started discussions with certain provincial capital city governments and the discussions have progressed smoothly. Provincial capital cities are of rich resources, its commercial and industrial users are of high gas consumption and the benefits of economic of scale are significant, all are good for the Group’s improvement in

revenue structure and sustainable earning power. Moreover, in terms of the human resources management, the Group has recruited a large number of management and technology experts, which has provided abundant supply of human resources for the administration and operation of its new projects.

The winning of the right to host the 2008 Olympic Games by Beijing is expected to cause an urgency to improve the air quality and there will be an increase in the demand of real estates in Beijing and the surrounding areas. Besides, the construction of the West to East Pipelines has fully unfolded on 4 July 2002 and gas supply is expected to commence in 2004. For these reasons, the Group's purchasing cost for natural gas is expected to reduce significantly and hence improve the profitability and pace of market development. The city natural gas distribution market in the PRC is a broad market with huge potentials and is bound to provide vast room for development opportunities for the Group. Through the relentless pursuit of excellence and supports from our staffs as well as people from different spectrum of the society, we are determined to become the leader in the city gas distribution industry.

## **INDEPENDENT REVIEW REPORT**

### **TO THE BOARD OF DIRECTORS OF XINAO GAS HOLDINGS LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

#### **Introduction**

We have been instructed by the Company to review the interim financial report set out on pages 6 to 16.

#### **Directors' responsibilities**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

#### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards ("SAS") 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

#### **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, cash flow statement and statement of changes in equity for the six months ended 30 June 2001 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

**Deloitte Touche Tohmatsu**  
Hong Kong, 29 August 2002

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2002**

		<b>Six months ended</b>	
		<b>30 June</b>	
		<b>2002</b>	<b>2001</b>
	<i>Notes</i>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	167,243	99,019
Cost of sales		<u>(80,627)</u>	<u>(40,062)</u>
Gross profit		86,616	58,957
Other revenue	3	8,183	2,478
Selling expenses		(4,432)	(1,647)
Administrative expenses		(30,285)	(14,907)
Other operating expenses		<u>(1,200)</u>	<u>(503)</u>
Profit from operations	4	58,882	44,378
Professional and other expenses incurred in connection with the listing of the Company's shares on the Mainboard		(5,421)	–
Finance costs		<u>(4,635)</u>	<u>(6,349)</u>
Profit before taxation		48,826	38,029
Taxation	5	<u>(2,181)</u>	<u>(7,376)</u>
Profit before minority interests		46,645	30,653
Minority interests		<u>(6,186)</u>	<u>(2,640)</u>
Profit for the period		<u>40,459</u>	<u>28,013</u>
Dividends	6	<u>–</u>	<u>–</u>
Earnings per share	7		
Basic		<u>5.90 cents</u>	<u>5.86 cents</u>
Diluted		<u>5.85 cents</u>	<u>–</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**  
*AT 30 JUNE 2002*

		<b>At 30 June 2002 (Unaudited) RMB'000</b>	<b>At 31 December 2001 (Audited) RMB'000</b>
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	8	513,305	409,889
Goodwill		11,031	7,787
Negative goodwill		(1,804)	(1,852)
		<hr/>	<hr/>
		522,532	415,824
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories		44,733	31,994
Trade and other receivables	9	140,773	78,122
Amounts due from customers for contract work		31,942	11,778
Amounts due from related companies		2,439	3,115
Pledged bank deposits		17,900	–
Bank balances and cash		534,102	182,472
		<hr/>	<hr/>
		771,889	307,481
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade and other payables	10	106,451	93,313
Amounts due to customers for contract work		24,177	16,364
Amounts due to related companies		21,154	13,660
Bank loans – due within one year	11	172,319	74,933
Tax payable		3,642	2,925
		<hr/>	<hr/>
		327,743	201,195
		<hr/>	<hr/>
<b>Net current assets</b>		444,146	106,286
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		966,678	522,110
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Bank loans – due after one year	11	55,846	48,215
Deferred taxation		5,639	3,730
		<hr/>	<hr/>
		61,485	51,945
		<hr/>	<hr/>
<b>Minority interests</b>		63,516	17,504
		<hr/>	<hr/>
		841,677	452,661
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Share capital	12	78,122	66,462
Reserves		763,555	386,199
		<hr/>	<hr/>
		841,677	452,661
		<hr/>	<hr/>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2002**

**Six months ended 30 June 2001**

	Share capital (Unaudited) RMB'000	Share premium (Unaudited) RMB'000	Special reserve (Unaudited) RMB'000	Goodwill reserve (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Revaluation reserve (Unaudited) RMB'000	Total (Unaudited) RMB'000
At 1 January 2001	–	–	21,731	5,590	42,509	–	69,830
Surplus arising on valuation of land and buildings	–	–	–	–	–	12,536	12,536
Tax effect on valuation surplus	–	–	–	–	–	(3,730)	(3,730)
Share on valuation surplus by minority shareholders	–	–	–	–	–	(81)	(81)
Net gains not recognised in the consolidated income statement	–	–	–	–	–	8,725	8,725
Share exchange upon reorganisation	20,564	–	(20,564)	–	–	–	–
Capitalisation issue	23,956	57,418	–	–	–	–	81,374
Issue of shares on placing	21,942	230,391	–	–	–	–	252,333
Shares issue expenses	–	(38,868)	–	–	–	–	(38,868)
Profit for the period	–	–	–	–	28,013	–	28,013
At 30 June 2001	<u>66,462</u>	<u>248,941</u>	<u>1,167</u>	<u>5,590</u>	<u>70,522</u>	<u>8,725</u>	<u>401,407</u>

**Six months ended 30 June 2002**

	Share capital (Unaudited) RMB'000	Share premium (Unaudited) RMB'000	Special reserve (Unaudited) RMB'000	Goodwill reserve (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Revaluation reserve (Unaudited) RMB'000	Total (Unaudited) RMB'000
At 1 January 2002	66,462	248,941	1,167	5,590	121,776	8,725	452,661
Surplus arising on valuation of land and buildings	–	–	–	–	–	8,627	8,627
Tax effect on valuation surplus	–	–	–	–	–	(1,909)	(1,909)
Share on valuation surplus by minority shareholders	–	–	–	–	–	(708)	(708)
Net gains not recognised in the consolidated income statement	–	–	–	–	–	6,010	6,010
Issue of shares on placing	11,660	343,970	–	–	–	–	355,630
Shares issue expenses	–	(13,083)	–	–	–	–	(13,083)
Profit for the period	–	–	–	–	40,459	–	40,459
At 30 June 2002	<u>78,122</u>	<u>579,828</u>	<u>1,167</u>	<u>5,590</u>	<u>162,235</u>	<u>14,735</u>	<u>841,677</u>



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2002**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2002</b>	<b>2001</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash outflow from operating activities	(21)	(15,909)
Net cash outflow from investing activities	(133,915)	(25,422)
Net cash inflow from financing activities	<u>485,566</u>	<u>202,732</u>
Increase in cash and cash equivalents	351,630	161,401
Cash and cash equivalents at beginning of period	<u>182,472</u>	<u>39,366</u>
Cash and cash equivalents at end of period	<u><u>534,102</u></u>	<u><u>200,767</u></u>
Balances of cash and cash equivalents represented by:		
Bank balances and cash	<u><u>534,102</u></u>	<u><u>200,767</u></u>

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**  
*FOR THE SIX MONTHS ENDED 30 JUNE 2002*

**1. BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 July 2000. On 28 March 2001, pursuant to a reorganisation (the “Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on The Growth Enterprise Market (“GEM”), the Company became the holding company of the subsidiaries included in the Reorganisation.

The condensed consolidated income statement have been prepared using the merger basis of accounting as a result of the Reorganisation completed on 28 March 2001 referred to above. Under this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Reorganisation for the entire financial period presented.

The shares of the Company have been listed on GEM of Stock Exchange since 10 May 2001. During the current period, the Company withdrawn the listing of its shares on GEM. On 3 June 2002, the Company has by way of introduction, listed its entire issued share capital on the Main Board of the Stock Exchange.

The condensed financial statements have been prepared under the historical cost convention as modified for revaluation of certain properties.

The accounting policies adopted are consistent with those followed in the Group’s annual financial statements for the year ended 31 December 2001, except as described below.

In the current period, the Group has adopted, for the first time, the following new and revised SSAPs which has resulted in changes in the accounting policies and the presentation of the financial statements as described below.

SSAP 1 (Revised) “Presentation of Financial Statements” has introduced new format of presentation in reporting changes in equity.

SSAP 15 (Revised) “Cash Flow Statements” has changed the classification of cash flows in the cash flow statement and the definition of cash equivalents by excluding cash balances held for investment purposes and short term loans that are financing in nature.

SSAP 34 “Employee Benefits” has introduced a formal framework for the recognition of liabilities and expenses in respect of employee benefits. The adoption of this new accounting standard has not resulted in any material effects on the results for the current or prior periods.

## 2. SEGMENT INFORMATION

### (a) Business segments

For management purposes, the Group is currently divided into three divisions: gas connection, sales of gas and sales of gas appliances. These divisions are the basis on which the Group reports its primary segment information.

	Six months ended 30 June	
	2002 (Unaudited) RMB'000	2001 (Unaudited) RMB'000
Turnover		
Gas connection fees	98,598	77,224
Sales of gas	68,067	21,404
Sales of gas appliances	578	391
	<u>167,243</u>	<u>99,019</u>
Profit from operations		
Gas connection fees	74,019	54,934
Sales of gas	21,159	5,420
Sales of gas appliances	184	408
Unallocated other revenue	8,183	2,478
Unallocated expenses:		
– depreciation and amortisation	(6,626)	(1,977)
– corporate expenses	(38,037)	(16,885)
	<u>58,882</u>	<u>44,378</u>

### (b) Geographical segment

All of the Group's businesses are derived from activities in the People's Republic of China ("PRC"), including Hong Kong, in both periods.

## 3. OTHER REVENUE

	Six months ended 30 June	
	2002 (Unaudited) RMB'000	2001 (Unaudited) RMB'000
Other revenue include:		
Incentive subsidies ( <i>note</i> )	3,919	–
Interest income	<u>2,060</u>	<u>797</u>

The incentive subsidies received during the period was from local government authority in Langfang.

#### 4. PROFIT FROM OPERATIONS

	Six months ended	
	30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit from operations has been arrived at after charging:		
Amortisation of goodwill	293	–
Depreciation and amortisation of property, plant and equipment	28,707	3,192

#### 5. TAXATION

The charge represents enterprise income tax in the PRC for the period.

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

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

#### 6. DIVIDENDS

The directors resolved not to pay an interim dividend for the six months ended 30 June 2002 (2001: nil).

#### 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the profit for the period of RMB40,459,000 (2001: RMB28,013,000) and the weighted average of 685,950,276 (2001: 477,679,556) shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the profit for the period of RMB40,459,000 and the adjusted weighted average of 691,416,781 shares, after taking into account of the effect of dilutive share options, in issue during the period.

No diluted earnings per share is presented in the previous period as there were no potential dilutive shares in existence during that period.

#### 8. MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a total cost of approximately RMB112,329,000 (2001: RMB10,520,000).

The Group has also accounted for the surplus arising from the valuation of land and buildings of approximately RMB8,627,000 (2001: RMB12,536,000) during the period. The valuation was carried out by Chesterton Petty Limited, a firm of professionally qualified valuers, on an open market value basis as of 31 January 2002 (2001: 31 January 2001). The directors consider the open market value at 31 January 2002 was not significantly different from that at 30 June 2002.

## 9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 79 days to its trade customers.

	<b>At 30 June 2002 (Unaudited) RMB'000</b>	<b>At 31 December 2001 (Audited) RMB'000</b>
The following is an aged analysis of trade receivable:		
0 – 3 months	39,216	35,707
4 – 6 months	8,058	18,412
7 – 9 months	17,830	2,354
10 – 12 months	5,609	1,520
More than 1 year	1,931	3,993
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Trade receivable	72,644	61,986
Amount due from an officer	6,047	4,456
Prepayments, deposits and other receivables	62,082	11,680
	<hr/>	<hr/>
	<b>140,773</b>	<b>78,122</b>

## 10. TRADE AND OTHER PAYABLES

	<b>At 30 June 2002 (Unaudited) RMB'000</b>	<b>At 31 December 2001 (Audited) RMB'000</b>
The following is an aged analysis of trade payables:		
0 – 3 months	38,040	36,299
4 – 6 months	11,056	8,120
7 – 9 months	11,728	5,306
10 – 12 months	3,109	3,043
More than 1 year	6,289	9,155
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Trade payable	70,222	61,923
Advances received from customers	4,922	3,673
Accrued charges and other payables	31,307	27,717
	<hr/>	<hr/>
	<b>106,451</b>	<b>93,313</b>

## 11. BANK LOANS

During the period, the Group obtained new bank loans in the amount equivalent to RMB86,771,000 (2001: nil). The loans bear interest at market rates and are repayable within one year. The proceeds were used to finance the capital investments and general working capital of the Group.

## 12. SHARE CAPITAL

	Number of shares	HK\$'000
Share of HK\$0.10 each		
Authorised:		
At 1 January 2002 and 30 June 2002	<u>3,000,000,000</u>	<u>300,000</u>
Issued and fully paid:		
At 1 January 2002	627,000,000	62,700
Issue of shares on placing on 25 March 2002 ( <i>note</i> )	<u>110,000,000</u>	<u>11,000</u>
At 30 June 2002	<u>737,000,000</u>	<u>73,700</u>
Presented in financial statements as:		
		<i>RMB'000</i>
At 1 January 2002		66,462
Issue of shares on placing on 25 March 2002 ( <i>note</i> )		<u>11,660</u>
At 30 June 2002		<u>78,122</u>

*Note:* These shares rank pari passu with the existing shares in all respects. The net proceeds from shares issued on placing were used as general working capital and expansion of the Group.

## 13. CONTINGENCIES AND COMMITMENTS

	At 30 June 2002 (Unaudited) <i>RMB'000</i>	At 31 December 2001 (Audited) <i>RMB'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for in the financial statements	<u>39,350</u>	<u>2,375</u>

The Directors of the Company confirmed that the Group has no contingencies as at 30 June 2002 (31.12.2001: nil).

#### 14. ACQUISITION OF SUBSIDIARY

The acquisition has been accounted for by the acquisition method of accounting and particulars of the acquisition are:

	<i>RMB'000</i>
Net assets acquired	4,463
Goodwill arising on consolidation	3,537
	<hr/>
Total consideration satisfied by cash	8,000
	<hr/>
Outflow of cash and cash equivalents arising on acquisition:	
Cash consideration paid	(8,000)
Bank balance and cash acquired	1,468
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Net outflow of cash and cash equivalents in respect of purchase of subsidiary	(6,532)
	<hr/>

The subsidiary acquired did not make any significant contribution to the results of the Group during the interim period.

#### 15. RELATED PARTY TRANSACTIONS

Name of related party	Nature of transaction	Six months ended	
		2002	2001
		<i>RMB'000</i>	<i>RMB'000</i>
廊坊新城房地產開發有限公司	Provision of gas connection services by the Group ( <i>Note i</i> )	342	1,727
廊坊新奧酒店管理有限公司	Sales of gas by the Group ( <i>Note ii</i> )	240	–
廊坊新奧物業管理有限公司	Sales of gas by the Group ( <i>Note ii</i> )	3,150	4,373
	Provision for management services to the Group ( <i>Note iii</i> )	528	528
	Lease of premises by the Group ( <i>Note iv</i> )	165	165
新奧集團太陽能有限公司	Sales of gas by the Group ( <i>Note ii</i> )	1	38
新奧集團股份有限公司	Sales of gas by the Group ( <i>Note ii</i> )	–	869
	Lease of premises by the Group ( <i>Note iv</i> )	738	738
	Reimbursement of management fee ( <i>Note iv</i> )	132	132
新奧集團石家莊化工機械股份有限公司	Acquisition of compressed natural gas truck trailers, pressure regulating and gas equipment ( <i>Note v</i> )	1,450	–
		<hr/>	<hr/>

*Notes:*

- (i) The provision of gas connection services was charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (ii) The sales of gas were charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (iii) The provision of management services was determined in accordance to the contract entered into between the Group and the related company.
- (iv) Rental for lease of premises and reimbursement of management fee were determined in accordance to the contracts entered into between the Group and the related companies.
- (v) The consideration for acquisition of compressed natural gas truck trailers, pressure regulating and gas equipment was charged in accordance with prices by reference to the similar transactions with outsiders.

All the above related companies are controlled by the Company's director, Mr. Wang Yusuo. The amounts due from/to these related companies were unsecured, interest free and repayable on demand.

In the opinion of the Directors of the Company, all of the above-mentioned transactions were entered into in the ordinary course of business of the Group.



## DIRECTORS INTERESTS IN SHARES AND WARRANTS

At 30 June 2002, the interests of in the Directors and their associates in the share capital of the Company in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) were as follows:

Name of director	Number of ordinary shares of HK\$0.10 each				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Wang Yusuo (“Mr. Wang”)	–	–	420,000,000 Shares	–	420,000,000 Shares ( <i>Note</i> )
Ms. Zhao Baoju (“Ms. Zhao”)	–	–	420,000,000 Shares	–	420,000,000 Shares ( <i>Note</i> )

*Note:* The two references to 420,000,000 Shares relate to the same block of Shares. Such Shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao.

Save as disclosed above, at 30 June 2002, none of the Directors or their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance are required to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “2001 Scheme”) pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 24 April 2001. In connection with the listing of Shares on the Main Board of the Stock Exchange, the Company has adopted a share option scheme (the “2002 Scheme”) and terminated the 2001 Scheme pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002. Upon termination of the 2001 Scheme, no further options may be offered but in all other respects the provisions of the 2001 Scheme shall remain in force. Any outstanding options under the 2001 Scheme shall continue to be subject to the provisions of the 2001 Scheme and the adoption of the 2002 Scheme will not in any event affect the terms of the grant of such outstanding options. The 2002 Scheme shall remain in force for a period of 10 years commencing on 21 May 2002 after which period no further options may be granted thereunder.

The purpose of the 2002 Scheme is to provide incentives for participants to strive for the goals of the Group whilst allowing them to enjoy the fruit of their efforts and contribution. Pursuant to the 2002 Scheme, the Directors may, at its absolute discretion, invite any employee or executive director of any member of the Group, or any employee, partner or director of any business consultant, joint venture partner, financial adviser and legal adviser of and to any member of the Group, to take up options at HK\$1 per option to subscribe for Shares at an exercise price equal to at least the highest of (i) the closing price of the Shares on the Stock Exchange on the date of grant; (ii) the average closing price of the Shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a Share.

On 31 January 2002, the Directors had granted options to subscribe for an aggregate of 18,000,000 Shares under the 2001 Scheme, out of which 9,900,000 share options were granted to the Directors and 8,100,000 share options were granted to the employees of the Group. As at 30 June 2002, all of the outstanding options under the 2001 Scheme remained outstanding. Up to 30 June 2002, no option has been granted pursuant to the 2002 Scheme.

The Directors consider that it is not appropriate to state the value of the options granted under the 2001 Scheme due to the following reasons:

- (i) An option granted to a grantee under the 2001 scheme of the Company shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option;
- (ii) the calculation of the value of the options will be based on a number of undetermined but crucial variables such as the subscription price payable for the Shares, the number of options to be granted under the 2001 Scheme, the exercised period, interest rate, expected volatility and other relevant variables. In particular, the scheme period of 10 years will make these volatile variables very difficult to ascertain with accuracy; and
- (iii) the Directors believe that the calculation on speculative assumptions would not be meaningful and would be misleading to the shareholders.

No charge is recognised in the income statement in respect of the value of options granted under the 2001 Scheme in the period.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Details of options outstanding granted to the Directors under the 2001 Scheme are summarised as follows:

<b>Directors</b>	<b>Number of share options outstanding as at 30 June 2002</b>
Yang Yu	2,400,000
Zhao Jinfeng	1,500,000
Qiao Limin	1,500,000
Jin Yongsheng	1,500,000
Yu Jianchao	1,500,000
Cheung Yip Sang	1,500,000
<b>Total</b>	<b>9,900,000</b>

The closing price of the Company's share immediately before 31 January 2002, the date of grant of the options, was HK\$2.625.

The options were granted on 31 January 2002 at the exercise price of HK\$2.625 each. 50% of the options may be exercised between 1 August 2002 and 30 January 2004 and thereafter, options may be exercised at any time up until 31 January 2012.

Save as disclosed above, at no time during the period was the Company or its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

## **SUBSTANTIAL SHAREHOLDERS**

So as far the Directors are aware, as at 30 June 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:

<b>Name</b>	<b>Number of Shares held</b>	<b>Approximate percentage of shareholding</b>
Easywin Enterprises Limited	420,000,000 ( <i>Note</i> )	56.99%
Mr. Wang	420,000,000 ( <i>Note</i> )	56.99%
Ms. Zhao	420,000,000 ( <i>Note</i> )	56.99%

*Note:* The three reference to 420,000,000 Shares relate to the same block of Shares. Such Shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao.

## **EMPLOYEE**

As at 30 June 2002, the Group had a total of 1,945 staff of which 1,942 are based in the PRC and three are based in Hong Kong. They are remunerated at market level with benefits such as bonus, retirement benefit and share option scheme.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months period ended 30 June 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **AUDIT COMMITTEE**

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 including a review of the unaudited interim financial report for the six months ended 30 June 2002 ("Interim Report"). At the request of the Directors, the Group's external auditors have carried out a review of the Interim Report in accordance with Statement of Auditing Standards 700 "Engagement to review interim financial reports" issued by the Hong Kong Society of Accountants.

## **CORPORATE GOVERNANCE**

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not for any part of the six months ended 30 June 2002, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

By order of the Board  
**WANG YUSUO**  
*Chairman*

29 August 2002