新奧燃气控股有限公司
XinAo Gas Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2688)

(Website: www.xinaogas.com)

INTERIM RESULTS ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2004

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 2004 (the "Relevant Period") together with the comparative unaudited figures for the corresponding period in 2003. The unaudited consolidated results have been reviewed by the Company's auditors and audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2004

		Six months ended 30 June	
		2004	**2003**
		(Unaudited)	**(Unaudited)**
	NOTES	*RMB'000*	*RMB'000*
Turnover	*2*	587,118	334,552
Cost of sales		(354,139)	(195,054)
Gross profit		232,979	139,498
Other operating income		34,853	14,887
Selling expenses		(12,369)	(8,620)
Administrative expenses		(102,410)	(54,552)
Other operating expenses		(11,904)	(6,228)
Profit from operations	*3*	141,149	84,985
Finance costs		(23,949)	(9,528)
Share of results of associates		(351)	–
Share of results of jointly controlled entities		(440)	(31)
Profit before taxation		116,409	75,426
Taxation	*4*	(4,140)	(1,593)
Profit before minority interests		112,269	73,833
Minority interests		(24,496)	(8,326)
Profit for the period		87,773	65,507
Dividend	*5*	–	–
Earnings per share	*6*		
Basic		10.6 cents	8.9 cents
Diluted		10.5 cents	N/A

Notes:

1. **Basis of preparation**

The condensed 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 Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The entire share capital of the Company is listed on the Main Board of the Stock Exchange.

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

The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2003.

2. **Segment information**

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

For management purposes, the Group is currently divided into four divisions: gas connection, sales of piped gas, distributions of bottled liquefied petroleum gas and sales of gas appliances.

	Six months ended 30 June	
	2004	**2003**
	RMB'000	*RMB'000*
Turnover		
Gas connection fees	317,452	190,807
Sales of piped gas	194,788	69,072
Distributions of bottled liquefied petroleum gas	65,082	71,373
Sales of gas appliances	9,796	3,300
	587,118	334,552
Profit from operations		
Gas connection fees	212,100	135,502
Sales of piped gas	50,556	19,657
Distributions of bottled liquefied petroleum gas	215	3,791
Sales of gas appliances	1,379	694
Unallocated other operating income	14,002	6,887
Unallocated expenses:		
– depreciation and amortisation	(26,071)	(21,117)
– corporate expenses	(111,032)	(60,429)
	141,149	84,985

3. **Profit from operations**

	Six months ended 30 June	
	2004	**2003**
	RMB'000	*RMB'000*
Profit from operations has been arrived at after charging:		
Allowance for inventories	–	726
Amortisation of intangible assets included in other operating expenses	2,415	978
Depreciation and amortisation of property, plant and equipment	38,773	21,117

4. **Taxation**

Pursuant to the relevant laws and regulations in the People's Republic of China (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.

5. Dividend

The Directors resolved not to pay an interim dividend for the six months ended 30 June 2004 (2003: nil).

6. Earnings per share

	Six months ended 30 June	
	2004	**2003**
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basis and diluted earnings per share	87,773	65,507
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	828,857,692	737,000,000
Effect of dilutive potential ordinary shares – share options	11,051,296	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	839,908,988	N/A

For the period ended 30 June 2003, no diluted earnings per share was computed as the exercise price of the Company's outstanding share options is higher than the average market price of the Company's shares for the six months ended 30 June 2003.

BUSINESS REVIEW

The major results and operational data of the Group for the Relevant Period together with the comparative figures for the corresponding period last year are as follows:

	Six months ended 30 June		Increase
	2004	**2003**	**(Decrease)**
Turnover *(RMB)*	587,118,000	334,552,000	75.5%
Gross profit *(RMB)*	232,979,000	139,498,000	67.0%
Profit attributable to shareholders *(RMB)*	87,773,000	65,507,000	34.0%
Earnings per share – Basic *(RMB)*	10.6 cents	8.9 cents	19.1%
Connectable population	20,488,000	14,644,000	39.9%
Connectable residential households	6,829,000	4,881,000	39.9%
New connections made to residential households during the Relevant Period	104,142	68,821	51.3%
New connections made to commercial/industrial ("C/I") customers during the Relevant Period	304	105	1.9 times
New installed designed daily capacity for C/I customers during the Relevant Period	187,405	53,218 *(Note 1)*	2.5 times
Accumulated connections made to residential households	566,041 *(Note 2)*	279,671	1 time
Accumulated connections made to C/I customers	1,275 *(Note 2)*	607	1.1 times
Accumulated installed designed daily capacity for C/I customers *(m^3)*	810,658 *(Note 2)*	493,332	64.3%
Natural gas penetration rate for residential households	8.3%	5.7%	–
Unit of piped gas sold to residential households *(m^3)*	56,817,000	13,564,000	3.2 times
Unit of piped gas sold to C/I customers *(m^3)*	59,989,000	31,695,000	89.3%
Unit of liquefied petroleum gas ("LPG") sold (ton)	19,522	22,430	(13%)
Total length of existing intermediate and main pipelines *(km)*	2,690	1,291	1.1 times
Number of processing stations	46	28	18

Notes:

1. Excluding 75,000m^3 from acquisition

2. Including accumulated 80,616 residential customers and 189 commercial/industrial customers (with a total designed daily capacity of 90,460m^3) from acquisition.

Pipeline Construction

During the Relevant Period, gas connection fees revenue reached RMB317,452,000, representing an increase of 66.4% over the corresponding period last year and accounting for 54.1% of the total revenue. The average connection fees for residential households and commercial/industrial customers were RMB2,503 and RMB315 (per m^3). The decrease in average connection fees as compared to 2003 was because of special price the Group offered for attracting more connections, especially commercial/industrial customers, to increase gas sales volume in the future.

The designed daily capacity for commercial/industrial customers newly installed during the Relevant Period increased 2.5 times as compared to the corresponding period last year. The main pipelines of the West-to-East Pipelines Project are being completed one by one this year, and the Group expects that when its supply of natural gas commences, the gas supplying capacities of the projects along the West-to-East Pipelines will increase tremendously, and the connections made to commercial/industrial customers will also increase accordingly. It will further strengthen the Group's stable long term revenue.

During the year, the PRC government implemented macro-economic measures, which affected the property industry, but its impact on the Group was trivial. As most of the Group's projects are medium-sized cities with real estates being economical residential housing, and the Group's operation strategy was to develop the whole cities and made connections to not just new buildings but also existing buildings and commercial/industrial customers, the macro-economic measures hardly affected the number of new connections made. With effective marketing strategies, the Group fulfilled its goal on the number of connections made. In addition, the completion of the West-to-East Pipelines Project will be favourable to the Group's commercial/industrial customer development. Therefore, the growth of connection business for the year remains encouraging.

Gas Sales

During the Relevant Period, piped gas sales revenue reached RMB194,788,000, representing an increase of 1.8 times over the corresponding period last year and accounting for 33.2% of the total revenue, and the sales volume of natural gas also increased by 61.4%. The strong increase in piped gas sales did not just come from constant acquisitions of quality new projects, but also from successful marketing in existing projects. The large sales of piped coal gas in Changsha Project obtained last year also contributed to the high growth in gas sales.

In the first half of 2004, the Group launched compressed natural gas (CNG) vehicle refueling station business in massive scale and was constructing refueling stations in Shijiazhuang, Hebei Province, Liaocheng, Shandong Province, Xinxiang, Henan Province and Bengbu, Anhui Province. Developing refueling gas stations in the Group's existing gas projects not only takes full advantage of the exclusive rights and gas sources, but also increases the economies of scale of these projects. The Group expects that the refueling gas station business will become one of the major components of its total sales of natural gas.

During the Relevant Period, bottled LPG sales revenue reached RMB65,082,000, accounting for 11.1% of the total revenue and representing a decrease of 8.8% as compared to the corresponding period last year. However, distribution of natural gas is the main business of the Group. A few project companies were mainly engaged in the sale of LPG before being acquired by the Group, but after they were acquired by the Group and the new project companies were incorporated, they have all started to develop natural gas pipeline network. As the West-to-East Pipelines Project will be completed during the year, the Group expects that the sale of LPG in all these projects will be replaced by piped natural gas eventually. Likewise, piped coal gas in Changsha project will be replaced by piped natural gas gradually when natural gas supply commences next year.

Gross and Net Profit Margins
In the Relevant Period, the overall gross and net profit margins of the Group were 39.7% and 14.9% respectively. The margins dropped when compared to the corresponding period last year, and the major factors included that there were huge volumes of LPG and piped coal gas sales during the Relevant Period and the Group was still in the development stage for new projects. Also, as the projects the Group secured got larger, the percentage of minority interests in the Group's profits increased from 11.3% in the corresponding period last year to 21.8%. This also caused the net profit margin to decrease, and there was no diminution in actual operation efficiency. As the sale of LPG and piped coal gas will decrease steadily and the new projects become mature and cash cows, the consolidated gross and net profit margins are expected to become stable correspondingly.

New Projects
During the Relevant Period, the Group secured the following 3 new projects:

Province	**City**	**Connectable population**
Inner Mongolia	Tongliao	320,000
Guangxi	Guilin	640,000
Zhejiang	Huzhou	300,000

Total connectable population also rose to 20,488,000 as at the end of June 2004, representing an increase of 39.9% from 14,644,000 as in June last year, and the piped natural gas penetration rate for residential households was only 8.3%. The increase in new projects and the potential commercial/industrial customers will significantly strengthen the Group's current and future income. The Group expects to obtain three to five more quality gas projects in medium to large scale in the second half of the year.

The Group signed Memoranda of Understanding with CNOOC Nanhai Western Corporation and China Huayou (Group) Corporation respectively for strategic cooperation in exploring downstream markets. It ensures the Group's edges on gas source and competitiveness and has strategic significance for the Group's new project development.

Human Resources
As at 30 June 2004, the total number of staff employed by the Group was 6,583, of which five were based in Hong Kong. The number of staff increased 87.7% as compared to the corresponding period last year to cope with various medium to large scale projects obtained in the past year, and it is expected that the number of staff will continue to increase when more projects are obtained. The staff were remunerated at market level with benefits such as bonus, retirement benefit and share option schemes.

FINANCIAL RESOURCES REVIEW
Liquidity and Capital Resources
As at 30 June 2004, the Group had cash on hand equivalent to RMB803,538,000 (31 December 2003: RMB487,129,000), while the total bank and other borrowings were equivalent to RMB1,266,191,000 (31 December 2003: RMB1,111,926,000), and the net gearing ratio was 26.8%, calculated by dividing net debt over equity.

The Group also successfully brought in International Finance Corporation ("IFC"), the private sector arm of the World Bank Group, as our long term shareholder. IFC also provided loans for the total of US$25,000,000 (approximately RMB206,700,000 million) to the project companies of the Group. The loans will be drawn in the second half of the year for part of the working capital. The fact that IFC became the Group's shareholder and lender illustrates the Group's distinctive status and ability, positive prospects and its importance and contribution in the environmental industry.

Under the above US$25,000,000 Loan Agreements, the Company, Mr. Wang Yusuo ("Mr. Wang") and the Borrowers (i.e. Bengbu Xinao Gas Company Limited, Shijiazhuang Xinao Gas Company Limited and Xiangtan Xinao Gas Company Limited, subsidiaries of the Company) have entered into the Share Retention Agreement 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 in the capital of Easywin Enterprises Limited ("Easywin"), indirectly through Easywin, at least 35% of the issued share capital of the Company. Mr. Wang and Ms. Zhao are the beneficial and legal owners of Easywin, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. As at 30 June 2004, Easywin held 44.34% interests of the Company.

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

Borrowing Structure

As at 30 June 2004, the Group's total bank and other borrowings were equivalent to RMB1,266,191,000 (31 December 2003: RMB1,111,926,000), which included syndicated loans of US$75,000,000 (equivalent to RMB620,100,000) and a mortgage loan of HK$11,823,000 (equivalent to RMB12,532,000) with floating interest rates. The remaining borrowings, denominated in Renminbi, were granted by local banks in the PRC to the project companies with fixed interest rates and would be used as their working capital and operating expenditure. Except for the loan amount equivalent to RMB45,414,000 that had to be secured by net asset value equivalent to RMB70,555,000, all of the other loans were unsecured. Short-term loans were equivalent to RMB679,103,000, while the remaining were long-term loans falling due after more than one year.

As all the operations of the Group were in the PRC, revenues and expenses were mainly denominated in Renminbi. Hence, there was no significant foreign exchange fluctuation exposure. The Group has entered into currency and interest rate swap contracts for all syndicated loans in order to fix the exchange and interest rates.

Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2004 (31 December 2003: nil).

PROSPECTS

With the main pipelines of the West-to East Pipelines Project being completed, its branch pipelines will also be finished consecutively, and Zhong-Wu Line will also commence gas supply next year. The gas supplying capacities of the downstream project companies will increase tremendously, and the number of natural gas users will also increase accordingly. With the government's strong support on using natural gas and the Group's abilities to obtain quality projects in medium-large cities and develop the local natural gas markets, it is expected that the business of the Group is still in the high growth stage, and it will bring high returns to the shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

An audit committee was formed in March 2001. 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, Mr. Xu Liang (all of the above are independent non-executive Directors) and Mr. Yu Jianchao (an executive Director). An audit committee meeting was held in September 2004 to review the unaudited interim financial report for the six months ended 30 June 2004. 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 2004 in accordance with the Statement of Auditing Standards No.700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. An unmodified review report was issued subsequent to the review.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Group is not, or was not for any part of the six months ended 30 June 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

PUBLICATION OF DETAILED INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules of The Stock Exchange in force prior to 31 March 2004, which remain applicable to results announcements in respect of accounting periods commencing before 1 July 2004 under transitional arrangements, will be published on the Stock Exchange's Website in due course.

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 14 September 2004

As at the date of this announcement, the Board comprises nine executive Directors, namely Mr. Wang Yusuo (Chairman), Mr. Yang Yu (Chief Executive Officer), Mr. Chen Jiacheng, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Jin Yongsheng, Mr. Yu Jianchao, Mr. Cheung Yip Sang and Mr. Cheng Chak Ngok; one non-executive Director, namely Ms. Zhao Baoju; and two independent non-executive Directors, namely Mr. Wang Guangtian and Mr. Xu Liang.