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 SIX MONTHS ENDED 30 JUNE 2006

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 2006 (the "Period"). The unaudited condensed consolidated financial statements have been reviewed by the Company's auditors and audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2006

		Six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited and restated)
	NOTES	*RMB'000*	*RMB'000*
Revenue	*3*	1,450,162	853,601
Cost of sales		(941,837)	(553,900)
Gross profit		508,325	299,701
Other income	*4*	57,207	43,995
Selling expenses		(25,735)	(14,574)
Administrative expenses		(196,168)	(129,501)
Fair value changes on derivative financial instruments		(35,061)	4,953
Share-based payment expense		(30,317)	–
Other expenses		(23,096)	(10,120)
Share of results of associates		3,388	(858)
Share of results of jointly controlled entities		14,154	280
Finance costs		(69,993)	(34,504)
Profit before taxation	*5*	202,704	159,372
Taxation	*6*	(25,752)	(8,347)
Profit for the period		176,952	151,025
Attributable to:			
Equity holders of the Company		135,853	116,703
Minority interests		41,099	34,322
		176,952	151,025
Dividend	*7*	–	–
Earnings per share	*8*		
Basic		14.8 cents	13.3 cents
Diluted		14.3 cents	12.9 cents

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2006

	NOTES	At 30 June 2006 (Unaudited) RMB'000	At 31 December 2005 (Audited and restated) RMB'000
Non-current assets			
Property, plant and equipment		4,237,870	3,534,973
Prepaid lease payments		371,938	269,882
Investment properties		71,602	71,602
Goodwill		178,105	132,789
Rights of operation		235,816	54,481
Customer base		29,190	2,790
Interests in associates		180,289	71,661
Interests in jointly controlled entities		249,586	235,432
Amount due from an associate		83,000	57,000
Amount due from a jointly controlled entity		69,000	–
Available-for-sale investments		7,100	2,600
Deposits paid for investments in joint ventures		54,440	264,602
		5,767,936	4,697,812
Current assets			
Inventories		140,194	115,713
Trade and other receivables	9	742,623	579,423
Prepaid lease payments		5,936	5,776
Derivative financial instruments		3,422	5,504
Amounts due from customers for contract work		296,297	216,286
Amounts due from associates		8,649	52,731
Amounts due from jointly controlled entities		33,327	40,119
Amounts due from related companies		71,871	52,118
Pledged bank deposits		–	162,963
Bank balances and cash		1,791,710	1,621,092
		3,094,029	2,851,725
Current liabilities			
Trade and other payables	10	1,017,074	729,904
Derivative financial instruments		82,641	49,662
Amounts due to customers for contract work		257,247	183,078
Amounts due to associates		51,980	90,826
Amounts due to jointly controlled entities		10,431	4,920
Amounts due to related companies		7,359	19,796
Taxation payable		34,492	37,439
Bank and other loans – due within one year		489,647	566,457
		1,950,871	1,682,082
Net current assets		1,143,158	1,169,643
		6,911,094	5,867,455
Capital and reserves			
Share capital		99,375	95,819
Reserves		2,590,548	2,241,907
Equity attributable to equity holders of the Company		2,689,923	2,337,726
Minority interests		716,256	527,406
		3,406,179	2,865,132
Non-current liabilities			
Bank and other loans – due after one year		1,604,794	961,083
Convertible bonds		281,420	448,933
Guaranteed notes		1,559,630	1,570,729
Deferred taxation		59,071	21,578
		3,504,915	3,002,323
		6,911,094	5,867,455

Notes

1. **Basis of Preparation**

The condensed consolidated 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 "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. **Principal Accounting Policies**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values or at revalued amounts, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendment and interpretations ("INTs") ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"[2]
HK(IFRIC)-INT 8	Scope of HKFRS 2[3]
HK(IFRIC)-INT 9	Reassessment of embedded derivatives[4]

[1] *Effective for annual periods beginning on or after 1 January 2007.*
[2] *Effective for annual periods beginning on or after 1 March 2006.*
[3] *Effective for annual periods beginning on or after 1 May 2006.*
[4] *Effective for annual periods beginning on or after 1 June 2006.*

During the current interim period, the Group has adopted the following accounting policy as follows:

Customer base

Customer base represents the cost of acquiring the customer base from third parties established in various cities of the People's Republic of China. The customer base is amortised over the respective business operation period.

3. **Segment Information**

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

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

Six months ended 30 June 2006

	Gas connection *RMB'000*	Sales of piped gas *RMB'000*	Distributions of bottled liquefied petroleum gas *RMB'000*	Sales of gas appliances *RMB'000*	Consolidation *RMB'000*
Revenue	583,036	696,170	129,529	41,427	1,450,162
Result	433,945	146,608	3,026	9,053	592,632
Unallocated other income					35,588
Unallocated corporate expenses					(373,065)
					255,155
Share of results of associates					3,388
Share of results of jointly controlled entities					14,154
Finance costs					(69,993)
Profit before taxation					202,704
Taxation					(25,752)
Profit for the period					176,952

Six months ended 30 June 2005

	Gas connection *RMB'000*	Sales of piped gas *RMB'000*	Distributions of bottled liquefied petroleum gas *RMB'000*	Sales of gas appliances *RMB'000*	Consolidation *RMB'000* **(Restated)**
Revenue	410,962	333,228	91,566	17,845	853,601
Result	283,422	62,490	4,039	1,768	351,719
Unallocated other income					26,941
Unallocated corporate expenses					(184,206)
					194,454
Share of results of associates					(858)
Share of results of jointly controlled entities					280
Finance costs					(34,504)
Profit before taxation					159,372
Taxation					(8,347)
Profit for the period					151,025

4. Other Income

	Six months ended 30 June 2006	2005
	RMB'000	*RMB'000*
		(Restated)
Other income include:		
Gain on dilution of interest in a subsidiary	15,144	–
Discount on acquisition	–	10,898
Compensation income *(note a)*	–	16,510
Gain on foreign exchange	88	–
Incentive subsidies *(note b)*	5,837	1,917
Income from conversion of fuel pipes of vehicles	3,040	–
Income from rented premises under operating leases	2,119	1,885
Interest earned from bank deposits	12,613	2,377
Miscellaneous sales	5,216	6,322
Pipeline transmission income	104	670
Repairs and maintenance income	1,996	1,005

Notes:

a. Pursuant to a notice of compensation issued by the relevant government authority in the PRC on 5 January 2004, 長沙新奧燃氣有限公司 ("Changsha Xinao"), a subsidiary of the Company, is entitled to receive a compensation annually from the government authority to subsidise its coal gas operation with effect from September 2003.

In 2005, compensation income of RMB15,400,000 was granted to Changsha Xinao.

During the period, since the coal gas operation has been ceased, no further compensation is granted to Changsha Xinao.

b. The amount represents refund of part of income tax as an incentive for re-investment of the profit of certain subsidiaries operated by the foreign investor, and incentive subsidies granted by the relevant government authorities in the PRC. These incentive subsidies were recorded in the period when the relevant approval was obtained.

5. Profit before Taxation

	Six months ended 30 June 2006	2005
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Allowance for inventories	–	8,121
Amortisation of rights of operation (included in other expenses)	4,655	264
Amortisation of prepaid lease payments	2,742	2,125
Depreciation of property, plant and equipment	86,460	52,381
Loss on disposal of property, plant and equipment	3,171	–
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	71	3

6. Taxation

Pursuant to the relevant laws and regulations in the PRC, certain 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.

7. Dividend

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: nil).

8. Earnings Per Share

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

	Six months ended 30 June	
	2006	**2005**
	RMB'000	*RMB'000*
		(Restated)
Earnings		
Earnings for the purpose of basic earnings per share	135,853	116,703
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	6,552	10,001
Earnings for the purpose of diluted earnings per share	142,405	126,704
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	919,001,474	876,349,309
Effect of dilutive potential ordinary shares:		
– share options	1,137,226	7,354,167
– convertible bonds	71,747,951	101,149,425
Weighted average number of ordinary shares for the purpose of diluted earnings per share	991,886,651	984,852,901

The following table summarises the effect of the fair value adjustments to provisional values on assets and liabilities acquired in last period on both basic and diluted earnings per share for the six months ended 30 June 2005:

	Basic earnings per share (cents)	**Diluted earnings per share (cents)**
Reported figures before adjustments	12.6	12.3
Adjustments arising from changes in fair values	0.7	0.6
Restated	13.3	12.9

9. Trade and Other Receivables

The Group allows an average credit period ranging from 60 to 90 days to its trade customers.

	At 30 June 2006	**At 31 December 2005**
	RMB'000	*RMB'000*
The following is an aged analysis of trade receivables:		
0 – 3 months	182,851	179,424
4 – 6 months	31,668	32,788
7 – 9 months	85,253	53,359
10 – 12 months	20,132	18,287
More than 1 year	15,735	3,618
Trade receivables	335,639	287,476
Prepayments, deposits and other receivables	406,984	291,947
	742,623	579,423

10. Trade and Other Payables

	At 30 June 2006	**At 31 December 2005**
	RMB'000	*RMB'000*
The following is an aged analysis of trade payables:		
0 – 3 months	269,155	213,772
4 – 6 months	52,907	64,340
7 – 9 months	78,074	17,364
10 – 12 months	11,137	16,378
More than 1 year	51,949	35,838
Trade payables	463,222	347,692
Advances received from customers	353,665	216,381
Accrued charges and other payables	200,187	165,831
	1,017,074	729,904

BUSINESS REVIEW

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

	Six months ended 30 June		Increase
	2006	**2005**	**(Decrease)**
	(Unaudited)	**(Unaudited and restated)**	
Turnover *(RMB)*	1,450,162,000	853,601,000	69.9%
Gross profit *(RMB)*	508,325,000	299,701,000	69.6%
Profit attributable to equity holders of the Company *(RMB)*	135,853,000	116,703,000	16.4%
Earnings per share – Basic *(RMB)*	14.8 cents	13.3 cents	11.3%
Connectable urban population	33,615,000	31,446,000	6.9%
Connectable residential households	11,205,000	10,482,000	6.9%
New natural gas connections made during the Period:			
– residential households	194,787	123,799	57.3%
– commercial/industrial ("C/I") customers	603	516	16.9%
– installed designed daily capacity for C/I customers *(m^3)*	601,412	438,739	37.1%
Accumulated number of natural gas customers:			
– residential households	1,783,150 [(1)]	904,791 [(2)]	97.1%
– C/I customers	4,670 [(1)]	2,553 [(2)]	82.9%
– installed designed daily capacity for C/I customers *(m^3)*	3,367,699 [(1)]	1,662,800 [(2)]	1.0 time
Accumulated number of piped gas (including natural gas) customers:			
– residential households	2,174,193	1,234,652	76.1%
– C/I customers	5,185	3,074	68.7%
– installed designed daily capacity for C/I customers *(m^3)*	4,051,134	1,733,791	1.3 times
Natural gas penetration rate	15.9%	8.6%	–
Piped gas (including natural gas) penetration rate	19.4%	11.8%	–
Unit of piped gas sold to residential households *(m^3)*	158,266,000	96,460,000	64.1%
Unit of piped gas sold to C/I customers *(m^3)*	324,878,000	120,619,000	1.7 times
Unit of liquefied petroleum gas ("LPG") sold *(ton)*	24,697	22,799	8.3%
Number of vehicle refuelling stations	47	8	39
Number of natural gas processing stations	73	59	14
Total length of existing intermediate and main pipelines *(km)*	8,446	6,581	28.3%

Notes:

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

2. Including a total of 146,314 natural gas residential customers and 522 natural gas C/I customers (with a total designed daily capacity of 165,947m^3) from acquisition/conversion.

Pipeline Construction

During the Period, gas connection fee revenue reached RMB583,036,000, representing an increase of 41.9% over the corresponding period last year and accounting for 40.2% of the total revenue. The average connection fees for residential households and C/I customers were RMB2,628 and RMB288 (per m^3) respectively. As compared to 2005, the average connection fees for residential households remained at the same level, whereas the average connection fees for C/I customers increased. The Group offered higher discount to those C/I customers with large designed daily capacity. The Group made connections to a lot of large volume C/I customers last year whereas in the first half of 2006, the connections made were more evenly distributed. As a result, the average connections fee for C/I customers slightly increased. As C/I customers are the main gas users, more C/I customers can significantly increase gas sales volume in the future and provide reliable and steady revenue and cash flow.

Taking advantage of its industry experience and good management, the Group achieved sustained growth in the number of new connections. The new connections made to residential households and the designed daily capacity for C/I customers newly installed during the Period increased 57.3% and 37.1% respectively as compared to the corresponding period last year.

With the commencement of gas supply of the main and branch pipelines of the West-East Pipeline Project, the Zhongxian-Wuhan Pipeline and the Shaanxi-Beijing Pipeline II, as well as the liquefied natural gas ("LNG") import terminal in Shenzhen that is in trial run and the other LNG import terminals under construction, the Group expects that there will be more and more piped natural gas sources available. Sufficient gas supply will facilitate more connections to both residential and C/I customers and strengthen the Group's stable long term revenue.

Gas Sales

During the Period, piped gas sales revenue reached RMB696,170,000, representing an increase of 1.1 times over the corresponding period last year and accounting for 48.0% of the total revenue. The sales volume of piped gas also increased by 1.2 times.

The strong increase in piped gas sales reflected that our strategy of only targeting at gas projects that already had or would have stable natural gas sources was highly successful and could support sustainable growth in large volume gas sales. It allows the lower margin piped coal gas and LPG users acquired by the Group during acquisition of other gas companies to be gradually converted into piped natural gas users. During the first half of 2006, 169,767 residential households and 205 C/I customers (with a total designed daily capacity of 108,289 m^3) that used piped coal gas and LPG were converted into piped natural gas users. It further reduced gas costs and increased the profit margins for gas sales. In addition, the growth in piped gas sales also demonstrated the Group's ability to raise effectively the gas penetration rates in its project cities to generate more stable long term gas sales revenue.

The Group is devoted to developing compressed natural gas ("CNG") vehicle refuelling station ("refuelling station") business in its existing piped gas projects and in cities with development potential. As of 30 June 2006, the Group obtained approvals from governments to build 165 refuelling stations, of which 15 was completed and commenced operation. The Group also successfully acquired Shanghai Jiuhuan Automobile Liquid Gas Development Joint-Stock Limited Company ("Jiuhuan LPG") and Shanghai Jiuhuan Automobile Natural Gas Development Company Limited ("Jiuhuan NG") in May 2006. Jiuhuan LPG and Jiuhuan NG run 28 LPG refuelling stations and 4 natural gas refuelling stations respectively. Making up a large market share of vehicle refuelling station business in Shanghai, the two companies allow the Group to have extensive refuelling station network in Shanghai and to establish a strong foothold for developing and exploring refuelling station business in Shanghai market. As a result, the Group had all together 47 refuelling stations. Developing refuelling station business not only allows the Group to take full advantage of its natural gas sources, but also helps to increase the economies of scale of the Group's existing projects. The Group expects that the refuelling station business will become one of the major catalysts for the Group to increase long term gas sales.

During the Period, bottled LPG sales revenue reached RMB129,529,000, accounting for 8.9% of the total revenue.

Gross and Net Profit Margins

In the Period, the overall gross profit margin and net profit margin (after minority interests) of the Group were 35.1% and 9.4% respectively. The gross profit margin maintained at the same level, whereas net profit margin decreased when compared to the corresponding period last year.

One of the major factors for the decrease in net profit margin was the increase in the share of minority interests in net profit from 22.7% in the corresponding period last year to 23.2% this year. It was a result of the Group shifting from securing small-to-medium projects to medium-to-large projects, in which minority shareholders' interests are higher, and when such large projects were getting mature, their share in the Group's total profit also grew accordingly. Another reason for the decrease in net profit margin was that as the projects were getting more mature, the tax benefits they enjoyed in the early stage were expiring, and the Group's effective tax rate increased to 12.7% from 5.2% in the corresponding period last year.

Other reasons for the decrease in net profit margin included the effects of the newly adopted accounting standards, which made the Company to charge an expense equivalent to RMB30,317,000 for the share options granted to the management by the Company in the first half of the year. Such an expense was actually not a cash expense, but was charged into equity reserve as reserve.

Under the newly adopted accounting standards, the interest hedging transactions the Group entered into for its debts also resulted in a non-cash expense equivalent to RMB35,061,000, which only increased the derivative financial instrument liability under current liabilities, and so far it did not incur any actual expenses for the Group. The non-cash expense incurred by the interest hedging transactions was derived from the changes of interest rates in the market and the market expectation on the future interest rate changes. With the changes in the future market interest rates and the market's expectation on future interest rates, the fair value of the interest hedging transactions will fluctuate accordingly. In fact, the Group received US$4,375,000 (equivalent to RMB34,981,000) in the first half of 2006 from the interest hedging transactions for its debts. It made the effective interest rate for the US$200,000,000 bonds to be reduced from 7.375% to 3%, which demonstrated the efficacy of the Group's interest hedging transactions. The Group used a safe structure for the interest hedging transactions, and its purpose is for hedging against interest rate risks rather than for speculation.

Lastly, the newly adopted accounting standards made the Group to recognise a profit equivalent to RMB5,993,000 for the corresponding period last year. The profit was mainly the recognised intangible assets from business combination and was non-cash in nature. Because of such a profit, the profit for the corresponding period last year was restated from RMB110,710,000 to RMB116,703,000, and the profit base for comparing profit growth in this year increased, hence the profit growth rate for this year was lowered from 22.7% to 16.4%.

New Projects

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

Province	City	Connectable urban population
Fujian	Nanan	383,000
Fujian	Huian	141,000
Fujian	Shishi	102,000
Fujian	Jinjiang	364,000

In 2005, the Group started its strategic adjustments. The Group has slowed down the acquisition of new projects and switched focus from obtaining many new piped gas projects to boosting penetration rates in existing projects and developing CNG refuelling stations, which facilitate long term natural gas sales.

Currently, the Group has an overall penetration rate of 19.4% only, and from the Group's past experience, the penetration rates can reach as high as 70% – 80%. Even if the Group slows down its acquisition and obtains fewer new projects, the Group expects to maintain its high growth, as the gas penetration rates of residential households and the sales volume of C/I customers will grow rapidly in the coming few years impelled by the strong economic growth in the PRC. In addition, the Group has reached critical mass in terms of connectable population coverage, and the long term revenue is guaranteed with growing penetration rates and more refuelling stations. Therefore, in the future, the Group will have higher flexibility to only select projects with high quality, high return or strategic significance.

The total connectable urban population rose to 33,615,000 as at the end of June 2006, representing an increase of 6.9% from 31,446,000 at the end of June last year. This makes the Group one of the largest professional city gas operators in terms of urban population coverage in the PRC.

Human Resources

As at 30 June 2006, the total number of staff employed by the Group was 11,236, of which 8 were based in Hong Kong. The number of staff increased 15.0% as compared to the corresponding period last year, to cope with various new projects obtained by the Group. The staff was remunerated at market level with benefits such as bonus, retirement benefit and share option scheme.

FINANCIAL RESOURCES REVIEW

Liquidity and Financial Resources

As at 30 June 2006, the Group's cash on hand (including pledged bank deposits) was RMB1,791,710,000 (31 December 2005: RMB1,784,055,000), and its total debts amounted to RMB3,935,491,000 (31 December 2005: RMB3,547,202,000). Its net gearing ratio, i.e. the ratio of net debt to equity (excluding minority interests), was 79.7% (31 December 2005: 75.4%).

Under the US$25,000,000 Loan Agreements with International Finance Corporation ("IFC"), the private sector arm of the World Bank Group, the Company, Mr. Wang Yusuo ("Mr. Wang") and the Borrowers (i.e. Bengbu Xinao Gas Company Limited, Shijiazhuang Xinao Gas Company Limited and Xiangtan Xinao Gas Company Limited, subsidiaries of the Company) have entered into the Share Retention Agreements with IFC on 18 May 2004 whereby Mr. Wang has agreed that, so long as any monies remain due or to become due and owing by the Borrowers to IFC under or in respect of the Loan Agreements, he and Ms. Zhao Baoju ("Ms. Zhao") will own, in aggregate, directly or, at any time that he and Ms. Zhao own in aggregate all the shares of Xinao Group International Investment Limited (formerly known as Easywin Enterprises Limited) ("XGII"), indirectly through XGII, at least 35% 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 2006, XGII and Mr. Wang together held 36.5% interests of the Company.

Five-year Zero Coupon Convertible Bonds

The Company issued five-year convertible bonds ("CB" or "CBs") in an aggregate principal amount of HK$550,000,000 on 15 November 2004. The CBs are zero coupon bonds; the issue price is 100% whereas the redemption price is 106.43%, which means that the effective interest rate is 1.25% per annum. The bondholders have the option to require the Company to redeem the CBs 2.5 years after the issue date. If the bondholders do not exercise the option of redemption, then they have to hold the CBs to maturity or exercise the conversion right during the conversion period. Bondholders can exercise the conversion right between 15 December 2004 and 15 November 2009 and convert the CBs into ordinary shares of HK$0.10 each of the Company, and the Company has the option to issue share or pay cash in lieu of shares to such bondholders. The conversion price for each ordinary share at the issue date of the CBs was HK$5.4375, which is subject to adjustment for events, if any, which may have diluting effects after the issue.

As at 30 June 2006, HK$261,970,000 (equivalent to RMB269,672,000) of CBs was converted into 48,178,380 ordinary shares of the Company. There were HK$288,030,000 (equivalent to RMB296,498,000) of CBs outstanding. If all the outstanding CBs are converted into shares, approximately 52,971,034 ordinary shares of the Company will be issued, equivalent to 5.65% of the total issued share capital of the Company as at 30 June 2006.

Seven-year 7.375% Fixed Rate Bonds

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

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

Borrowings Structure

As at 30 June 2006, the Group's total debts amounted to RMB3,935,491,000 (31 December 2005: RMB3,547,202,000), including, zero coupon CBs of HK$288,030,000 (equivalent to RMB296,498,000), loans and bonds of US$225,000,000 (equivalent to RMB1,799,010,000) and a mortgage loan of HK$9,539,000 (equivalent to RMB9,920,000). Apart from the zero coupon CBs and the fixed rate US dollar bonds, the other US dollar loan and HK dollar mortgage loan bear interest at floating rates, and the remaining bank and other borrowings are denominated in Renminbi at fixed interest rates. The project companies used the Renminbi loans as their working capital and operational expenditure. Except for the loan amount equivalent to RMB99,148,000 that has to be secured by assets with the carrying amount equivalent to RMB79,144,000, all of the other loans are unsecured. Short-term loans were equivalent to RMB489,647,000 while the remaining were long-term loans falling due after more than a year.

As all the operations of the Group are in the PRC, revenues and expenses were mainly denominated in Renminbi. Hence, there were no significant foreign exchange exposures or risks. The Group has entered into interest rate swap contracts for the US dollar bonds. The Group will monitor the market trends of interest rates closely and make appropriate adjustments when necessary. All the interest hedging transactions the Group entered into were mainly for hedging against interest rate risks rather than for speculation purpose.

Contingent Liabilities

As at 30 June 2006, the Group had contingent liabilities of RMB99,960,000 (31 December 2005: RMB77,000,000). The contingent liabilities are mainly guarantees made by the Group for the bank loans to jointly controlled entities and associates.

Capital Commitments

	At 30 June 2006 *RMB'000*	**At 31 December 2005** *RMB'000*
Capital expenditure contracted for but not provided in the financial statements in respect of		
– acquisition of property, plant and equipment	43,804	15,227
Group's share of capital commitments in joint ventures		
– contracted for but not provided	58,379	161,390
	102,183	176,617

PROSPECTS

The Group has strategic adjustments on its development plans: instead of focusing on obtaining a great number of new piped gas projects, we shift our emphasis to boosting gas penetration rates in our existing projects, developing CNG refuelling stations that can increase long term natural gas sales and developing energy distribution channels to peripheral towns and cities of our gas projects, so as to have sustainable business expansion. The Group has reached critical mass in terms of connectable population coverage, and the long term revenue is guaranteed by growing penetration rates and more CNG refuelling stations. Therefore, in the future, the Group will have higher flexibility to select projects with high quality, high return or strategic significance.

The Group expects to maintain its high growth, as the gas penetration rates of residential households and the sales volume of C/I customers will grow rapidly in the coming few years. The residential penetration rate of the Group increased from 11.8% as at 30 June 2005 to 19.4% as at 30 June 2006, and the installed designed daily capacity for C/I customers also increased from 1,733,791 m^3 to 4,051,134 m^3, which evidently demonstrated the Group's industry experience and ability to raise gas penetration rates.

With the Group's rising gas penetration rates, gas sales volume will also increase. Natural gas source will be the key factor for the development of the Group as well as the whole natural gas industry. Therefore, the Group started its investment in the upstream gas sources as early as in 2002 and established a joint venture at the sole natural gas source in Jiangsu Province at the time. Also, the Group invested in the LNG project in Weizhou Island, Guangxi, which commences production this year and becomes the fourth LNG production plant in the PRC. It supplies gas to the Group's projects in Guangdong and Guangxi. In addition, a company of the Group has successfully obtained the approval from the Ministry of Commerce to become the fourth enterprise in the PRC that has the rights for the import and export of natural gas and other energy sources, and it allows the Group to be able to buy energy from overseas to increase the Group's gas supply.

The Group also invests in a coal conversion project this year to establish in Erdos, Inner Mongolia a plant that have annual production capacity of up to 400,000 tons of dimethyl ether ("DME"). Other than natural gas, DME is also a clean fuel, and it can directly substitute natural gas and LPG. It is expected that the coal conversion project will be put into production in three years, and so the Group will have more of its own gas sources. Apart from being the backup gas source and ensuring gas supply to our existing gas projects, DME can also guarantee future gas sources for new projects and provide the Group with more gas sales revenue. At present, the project has been approved by the National Development and Reform Commission, and it has obtained equity and loan investments from IFC, the private sector arm of the World Bank Group.

The first LNG import terminal in the PRC will be completed and commence gas supply in Shenzhen in the second half of the year. Dongguan, the Group's largest project city, will benefit from it, and it will further increase the Group's penetration rates and gas sales volume. With more LNG import terminals and long distance pipelines being completed in the future, there is expected to be more sufficient gas sources, which ensure the Group to have even higher penetration rates and gas sales in its gas projects.

Under all the favorable conditions, we believe that the Group will have good development prospects, higher ability to ensure reliable gas sources and higher flexibility in selecting new projects for business expansion. The Group's strategic adjustment, total IT solutions and streamlining of business processes will facilitate the Group to have higher revenue, lower costs and more effective risk management, and the Group can make more efficient use of resources and take full advantage of the Group's leading edges in the industry. We will gradually turn from a high growth company into a public utilities company in the coming years, so as to minimise investment risks and maximise shareholders' wealth.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters. Members of the Audit Committee are Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau, who are all independent non-executive Directors. An audit committee meeting was held in September 2006 to review the unaudited interim financial report for the six months ended 30 June 2006. 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 2006 in accordance with the Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. An unmodified review report was issued subsequent to the review.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

THE CODE ON CORPORATE GOVERNANCE PRACTICES

To the knowledge of the Board, the Company has complied with the the Code Provisions set out in Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the Period.

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 20 September 2006

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