



新奥燃气控股有限公司
XinAo Gas Holdings Limited

(Stock code 股份代號: 2688)



2006

interim report
中期業績報告

XinAo Gas Holdings Limited

2006 interim report

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

Dear Shareholders,

The Board of Directors (the “Directors”) of Xinao Gas Holdings Limited (the “Company”, and together with its subsidiaries, the “Group”) is pleased to announce that the unaudited profit attributable to equity holders of the Company for the six months ended 30 June 2006 (the “Period”) was RMB135,853,000, representing an increase of RMB19,150,000 or 16.4% as compared to RMB116,703,000 (restated) for the corresponding period last year.

Financial and Operational Highlights

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 | | |
|---|--------------------------|-------------------------------------|------------------------|
| | 2006 (Unaudited) | 2005 (Unaudited and restated) | Increase (Decrease) |
| 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:

- 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 662,707m³) from acquisition/conversion.
- Including a total of 146,314 natural gas residential customers and 522 natural gas C/I customers (with a total designed daily capacity of 165,947m³) from acquisition/conversion.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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 m³) 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 m³) 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 Jiuahuan Automobile Liquid Gas Development Joint-Stock Limited Company ("Jiuahuan LPG") and Shanghai Jiuahuan Automobile Natural Gas Development Company Limited ("Jiuahuan NG") in May 2006. Jiuahuan LPG and Jiuahuan NG run 28 LPG refuelling stations and 4 CNG 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 recorded 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) cash 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%, and it resulted in no impact for the interest hedging transactions in the income statement. These 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 from the recognised intangible assets arising on 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 a great number of new piped gas projects to boosting penetration rates in existing projects and developing CNG refuelling stations, which facilitate long term natural gas sales.

MANAGEMENT DISCUSSION AND ANALYSIS

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% to 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 urban 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 connectable 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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\$200,000,000 bonds, the other US dollar loans and the 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 |

MANAGEMENT DISCUSSION AND ANALYSIS

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 urban 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 m³ to 4,051,134 m³, 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.



INDEPENDENT REVIEW REPORT

Deloitte.

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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 Xinao Gas Holdings Limited to review the interim financial report set out on pages 9 to 32.

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 Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group's 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 2006.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
20 September, 2006

XinAo Gas Holdings Limited

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

Six months ended 30 June

| | NOTES | 2006 (Unaudited) RMB'000 | 2005 (Unaudited and restated) 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 | 9 | 4,237,870 | 3,534,973 |
| Prepaid lease payments | | 371,938 | 269,882 |
| Investment properties | 9 | 71,602 | 71,602 |
| Goodwill | 10 | 178,105 | 132,789 |
| Rights of operation | 11 | 235,816 | 54,481 |
| Customer base | 12 | 29,190 | 2,790 |
| Interests in associates | 13 | 180,289 | 71,661 |
| Interests in jointly controlled entities | 13 | 249,586 | 235,432 |
| Amount due from an associate | 14 | 83,000 | 57,000 |
| Amount due from a jointly controlled entity | 14 | 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 | 15 | 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 | 16 | 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 | 17 | 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 | 18 | 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 | 17 | 1,604,794 | 961,083 |
| Convertible bonds | 19 | 281,420 | 448,933 |
| Guaranteed notes | 20 | 1,559,630 | 1,570,729 |
| Deferred taxation | | 59,071 | 21,578 |
| | | 3,504,915 | 3,002,323 |
| | | 6,911,094 | 5,867,455 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

Six months ended 30 June 2005

| | Attributable to equity holders of the Company | | | | | | | | | | | | |
|--|---|-------------------------|---|--------------------------------|---------------------------|------------------------------|--|-------------------------------|--|----------------------------|---|-------------------------------|------------------|
| | Attributable to equity holders of the Company | | | | | | | | | | | Minority interests (Restated) | Total (Restated) |
| | Share capital (RMB'000) | Share premium (RMB'000) | Convertible bond – equity reserve (RMB'000) | Share option reserve (RMB'000) | Special reserve (RMB'000) | Statutory reserves (RMB'000) | Property revaluation reserve (RMB'000) | Translation reserve (RMB'000) | Accumulated profits (Restated) (RMB'000) | Total (Restated) (RMB'000) | Minority interests (Restated) (RMB'000) | | |
| At 1 January 2005 | 91,954 | 1,070,309 | 53,896 | – | 1,167 | 44,350 | 21,053 | – | 637,067 | 1,919,796 | 438,288 | 2,358,084 | |
| Revaluation surplus of land and buildings recognised directly in equity upon transfer to investment properties | – | – | – | – | – | – | 2,985 | – | – | 2,985 | – | 2,985 | |
| Profit for the period | – | – | – | – | – | – | – | – | 116,703 | 116,703 | 34,322 | 151,025 | |
| Total recognised income and expenses for the period | – | – | – | – | – | – | 2,985 | – | 116,703 | 119,688 | 34,322 | 154,010 | |
| Issue of shares on exercise of share options (note a) | 2,343 | 50,746 | – | – | – | – | – | – | – | 53,089 | – | 53,089 | |
| Capital contribution from minority shareholders | – | – | – | – | – | – | – | – | – | – | 29,566 | 29,566 | |
| Disposal of a subsidiary | – | – | – | – | – | – | – | – | – | – | (550) | (550) | |
| Dividends paid to minority shareholders | – | – | – | – | – | – | – | – | – | – | (13,378) | (13,378) | |
| Transfer to statutory reserves (note b) | – | – | – | – | – | 15,369 | – | – | (15,369) | – | – | – | |
| At 30 June 2005 | 94,297 | 1,121,055 | 53,896 | – | 1,167 | 59,719 | 24,038 | – | 738,401 | 2,092,573 | 488,248 | 2,580,821 | |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

Six months ended 30 June 2006

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|--|---|--------------------------|--|---------------------------------|----------------------------|-------------------------------|---|--------------------------------|--------------------------------|------------------|-------------------------------|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Convertible bond – equity reserve RMB'000 | Share option reserve RMB'000 | Special reserve RMB'000 | Statutory reserves RMB'000 | Property revaluation reserve RMB'000 | Translation reserve RMB'000 | Accumulated profits RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total RMB'000 |
| | | | | | | | | | | | | |
| At 1 January 2006 | | | | | | | | | | | | |
| – as originally stated | 95,819 | 1,200,265 | 46,099 | - | 1,167 | 70,681 | 19,745 | 9,566 | 888,747 | 2,332,089 | 518,779 | 2,850,868 |
| – adjustments to fair values of assets acquired in prior period (note 22) | - | - | - | - | - | - | - | - | 5,637 | 5,637 | 8,627 | 14,264 |
| – as restated | 95,819 | 1,200,265 | 46,099 | - | 1,167 | 70,681 | 19,745 | 9,566 | 894,384 | 2,337,726 | 527,406 | 2,865,132 |
| Exchange difference arising on translation of foreign operations recognised directly in equity | - | - | - | - | - | - | - | 11,962 | - | 11,962 | - | 11,962 |
| Profit for the period | - | - | - | - | - | - | - | - | 135,853 | 135,853 | 41,099 | 176,952 |
| Total recognised income and expenses for the period | - | - | - | - | - | - | - | 11,962 | 135,853 | 147,815 | 41,099 | 188,914 |
| Issue of shares on conversion of convertible bonds and transfer from convertible bond-equity reserve to share capital and share premium (note b) | 3,556 | 14,318 | (17,874) | - | - | - | - | - | - | - | - | - |
| Transfer from convertible bonds liability to share premium on conversion of convertible bonds | - | 174,065 | - | - | - | - | - | - | - | 174,065 | - | 174,065 |
| Capital contribution from minority shareholders | - | - | - | - | - | - | - | - | - | - | 201,407 | 201,407 |
| Reduction in share of net assets of a subsidiary | - | - | - | - | - | - | - | - | - | - | (15,144) | (15,144) |
| Dividends paid to minority shareholders | - | - | - | - | - | - | - | - | - | - | (38,512) | (38,512) |
| Recognition of equity settled share based payments | - | - | - | 30,317 | - | - | - | - | - | 30,317 | - | 30,317 |
| Transfer to statutory reserves (note c) | - | - | - | - | - | 4,699 | - | - | (4,699) | - | - | - |
| At 30 June 2006 | 99,375 | 1,388,648 | 28,225 | 30,317 | 1,167 | 75,380 | 19,745 | 21,528 | 1,025,538 | 2,689,923 | 716,256 | 3,406,179 |

Notes:

- On 28 February 2005, 10 June 2005 and 22 June 2005, 11,637,500, 6,525,000 and 3,950,000 ordinary shares were issued in relation to the exercise of share options respectively. The shares were issued at an exercise price of HK\$2.265 per ordinary share. The market closing prices as at 28 February 2005, 10 June 2005 and 22 June 2005 were HK\$4.325, HK\$5.35 and HK\$5.4 respectively.
- During the period, 33,544,820 shares were issued in relation to the conversion of convertible bonds ("CB") to shares by various CB holders. The shares were issued at an conversion price of HK\$5.4375 per share. These shares rank pari passu with the existing shares in all aspects.
- In accordance with The People's Republic of China ("PRC") regulations, the statutory reserves retained by the subsidiaries in the PRC are non-distributable.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

Six months ended 30 June

| | NOTE | 2006 (Unaudited) RMB'000 | 2005 (Unaudited and restated) RMB'000 |
|---|------|--------------------------------|--|
| Net cash from operating activities | | 144,839 | 96,077 |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (458,361) | (367,552) |
| Decrease in deposits paid for investments in joint ventures | | 179,682 | – |
| Acquisition of right of operation | | (69,990) | – |
| Net cash inflow from acquisition of business | 23 | 22,885 | – |
| Acquisition of subsidiaries | | – | (31,604) |
| Investments in associates | | (91,610) | (9,500) |
| Investments in jointly controlled entities | | – | (35,789) |
| Proceeds on disposal of property, plant and equipment | | 4,086 | 394 |
| Amount advanced to an associate | | (26,000) | – |
| Amount advanced to a jointly controlled entity | | (69,000) | – |
| Other investing activities | | 2,294 | 2,377 |
| Net cash used in investing activities | | (506,014) | (441,674) |
| Financing activities | | | |
| Contribution from minority shareholders | | 96,657 | 3,964 |
| Dividends paid to minority shareholders | | (38,512) | (13,378) |
| New Bank loans raised | | 878,000 | 668,800 |
| Repayment of bank loans | | (567,315) | (388,243) |
| Decrease in pledged bank deposits | | 162,963 | – |
| Proceeds from shares issued | | – | 53,091 |
| Net cash from financing activities | | 531,793 | 324,234 |
| Increase (decrease) in cash and cash equivalents | | 170,618 | (21,363) |
| Cash and cash equivalents at beginning of period | | 1,621,092 | 911,537 |
| Cash and cash equivalents at end of period | | 1,791,710 | 890,174 |
| Balances of cash and cash equivalents represented by: | | | |
| Bank balances and cash | | 1,791,710 | 890,174 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

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 "Stock Exchange") 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

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 |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

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 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

4. Other Income

Six months ended 30 June

| | 2006 RMB'000 | 2005 RMB'000 (Restated) |
|--|-----------------|-------------------------------|
| Other income include: | | |
| Gain on dilution of interest in a subsidiary (note 23) | 15,144 | – |
| Discount on acquisition (note 10 (c)) | – | 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, 长沙新奥燃气有限公司 (“Changsha Xiniao”), 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 Xiniao.

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

- 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 RMB'000 | 2005 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 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

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 (six months ended 30 June 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 RMB'000 | 2005 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 (note 22) | 0.7 | 0.6 |
| Restated | 13.3 | 12.9 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

9. Movements of Property, Plant and Equipment and Investment Properties

During the period, the Group acquired property, plant and equipment at a total cost of approximately RMB796,614,000 (six months ended 30 June 2005: RMB361,610,000).

During the period, the Group disposed of certain plant and machinery with a carrying amount of RMB7,257,000 for proceeds of RMB4,086,000, resulting in a loss on disposal of RMB3,171,000.

No revaluation on leasehold land and buildings and investment properties was carried out during the period. The valuation at 31 December 2005 was carried out by Knight Frank Petty Limited (formerly known as Chesterton Petty Limited), independent qualified professional valuers not connected with the Group, on an open market value basis. The directors consider the carrying amount at 30 June 2006 was not significantly different from the fair value on that date.

During the six months ended 30 June 2006, there was no movement of investment properties. During the six months ended 30 June 2005, investment properties of RMB65,641,000 were transferred from land and buildings. Revaluation surplus at the date of transfer of RMB2,985,000 was credited to property revaluation reserve.

10. Goodwill

| | RMB'000 | RMB'000 (Restated) |
|--|----------|-----------------------|
| COST | | |
| At 1 January 2005 | | 88,824 |
| Elimination of amortisation accumulated prior to the adoption of HKFRS 3 | | (9,272) |
| Arising on: | | |
| Acquisition of subsidiaries | | |
| – as previously stated | 58,877 | |
| – fair value adjustments (<i>notes a and c</i>) | (14,397) | |
| | | 44,480 |
| Acquisition of business | | |
| – as previously stated | 9,567 | |
| – fair value adjustments (<i>note b</i>) | (810) | |
| | | 8,757 |
| At 31 December 2005, restated | | 132,789 |
| Arising on: | | |
| Acquisition of business (<i>note d and note 23</i>) | | 45,377 |
| Eliminated on deregistration of a subsidiary | | (61) |
| At 30 June 2006 | | 178,105 |
| AMORTISATION | | |
| At 1 January 2005 | | 9,272 |
| Elimination of amortisation accumulated prior to the adoption of HKFRS 3 | | (9,272) |
| At 31 December 2005 and 30 June 2006 | | – |
| CARRYING VALUES | | |
| At 30 June 2006 | | 178,105 |
| At 31 December 2005 | | 132,789 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

10. Goodwill – continued

Notes:

During the year ended 31 December 2005, the Group acquired certain subsidiaries and business of which the fair values of the identifiable assets, liabilities and contingent liabilities acquired were determined provisionally. During the period, the Group made certain fair value adjustments with reference to the valuation report to the carrying amounts of the identifiable assets and liabilities of 長沙星沙新奧燃氣有限公司, 杭州蕭山管道燃氣有限公司 and 台州新奧燃氣有限公司, which were acquired on 30 June 2005 and 27 December 2005 and established on 18 March 2005, respectively. The adjustments to the fair values at the acquisition date of the identifiable assets, liabilities and contingent liabilities were made as if initial accounting had been incorporated from acquisition date. Accordingly, goodwill arising on acquisition of subsidiaries and acquisition of business for the year ended 31 December 2005 decreased by RMB14,397,000 and RMB810,000, respectively.

As a result of completing the initial accounting, the profit for the six months ended 30 June 2005 was increased by RMB10,898,000, being the excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of 長沙星沙新奧燃氣有限公司.

- (a) The adjustments to the provisional fair values of asset and liabilities, acquired in the acquisition of 95% of the registered capital of 杭州蕭山管道燃氣有限公司 are as follows:

| | Provisional fair values as previously stated RMB'000 | Subsequent adjustments to previous fair values RMB'000 | Adjusted fair values RMB'000 |
|---------------|--|--|------------------------------------|
| Goodwill | 38,816 | (1,900) | 36,916 |
| Customer base | – | 1,900 | 1,900 |

- (b) The adjustments to the provisional fair values of assets and liabilities injected into 台州新奧燃氣有限公司 are as follows:

| | Provisional fair values as previously stated RMB'000 | Subsequent adjustments to previous fair values RMB'000 | Adjusted fair values RMB'000 |
|---------------|--|--|------------------------------------|
| Goodwill | 3,682 | (810) | 2,872 |
| Customer base | – | 810 | 810 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

10. Goodwill – continued

Notes: – continued

- (c) The adjustments to the provisional fair values of assets and liabilities, acquired in the acquisition of 85% of the registered capital of 長沙星沙新奧燃氣有限公司 on 30 June 2005 are as follows:

| | Provisional fair values as previously stated RMB'000 | Subsequent adjustments to previous fair values RMB'000 | Adjusted fair values RMB'000 |
|---|--|--|------------------------------------|
| Net assets acquired: | | | |
| Property, plant and equipment | 9,898 | – | 9,898 |
| Prepaid lease payments | 2,700 | – | 2,700 |
| Right of operation | – | 41,000 | 41,000 |
| Customer base | – | 80 | 80 |
| Inventories | 86 | – | 86 |
| Trade and other receivables | 600 | – | 600 |
| Bank balances and cash | 2,142 | – | 2,142 |
| Trade and other payables | (693) | – | (693) |
| Taxation payable | (23) | – | (23) |
| Deferred taxation | – | (13,556) | (13,556) |
| | 14,710 | 27,524 | 42,234 |
| Attributable to minority shareholders | (2,207) | (4,129) | (6,336) |
| Goodwill on acquisition | 12,497 | (12,497) | – |
| Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition") | – | (10,898) | (10,898) |
| Total consideration | 25,000 | – | 25,000 |

- (d) During the period, the minority shareholder of an existing subsidiary, namely 湛江新奧燃氣有限公司, which the Group owns 90% of the registered capital, injected assets and liabilities in relation to its LPG business at nil consideration. Upon completion of the injection, the Group recognised an amount of goodwill of RMB45,377,000 (note 23).

11. Rights of Operation

During the period, pursuant to the terms of a joint venture contract, the Group and the PRC joint venture partner injected capital in cash into a newly established subsidiary, namely 泉州市燃氣有限公司 which the Group owns 60% of the registered capital. In addition to the cash contribution in proportion to the registered capital held by the Group, the Group paid an additional cost of RMB69,990,000 to the PRC government for the right to invest in this subsidiary. The amount paid represents the right of operation in Quanzhou City and is amortised over the operation period of 29 years.

In addition, provisional fair value of right of operation of 石家莊新奧燃氣有限公司 of RMB116,000,000 was recognised upon the injection of assets and liabilities in relation to the coal gas business from the minority shareholder during the current period (note 23).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

12. Customer Base

During the period, customer base of RMB26,400,000 was recognised upon the injection of assets and liabilities in relation to the coal gas business from the minority shareholder (note 23).

13. Interests in Associates and Jointly Controlled Entities

During the period, the Group had made investments in a newly established associate, 長沙市鑫能車用燃氣有限公司 amounted to approximately RMB3,000,000. This investment is made in accordance with the capital contribution shared by the Group.

During the period, the Group had also acquired several associates. The acquisitions of these new associates are 40% of 咸陽市天然氣總公司, 15% of 新能化工有限公司* and 40% of 上海九環汽車天然氣發展有限公司, with consideration of RMB69,473,000, RMB23,676,000 and RMB9,022,000 respectively.

* The Group holds 15% interest in 新能化工有限公司 and has the power to appoint two directors out of a total of eleven directors. Accordingly, the directors of the Company consider that the Group exercises significant influence over this entity and it is therefore classified as an associate of the Group.

14. Amounts due from an associate and a jointly controlled entity

Amount due from an associate is unsecured, interest bearing at 6.12% per annum and repayable in 2008. During the period, the Group made advances of RMB26,000,000 to that associate.

During the period, the Group made advances of RMB69,000,000 to a jointly controlled entity. The balance is unsecured, interest bearing at 6.12% per annum and repayable in 2009.

15. 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 RMB'000 | At 31 December 2005 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 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

16. Trade and Other Payables

| | At 30 June 2006 RMB'000 | At 31 December 2005 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 |

17. Bank and Other Loans

During the period, the Group obtained new bank and other loans in the amount of RMB878,000,000 (six months ended 30 June 2005: RMB668,800,000) and made repayments in the amount of RMB567,315,000 (six months ended 30 June 2005: RMB388,243,000). The loans bear interest at 4.7% to 6.12% per annum. The proceeds were used to finance the capital expenditure and general working capital of the Group. At 30 June 2006, certain assets of the Group with aggregate carrying value of RMB79,144,000 (31 December 2005: RMB88,209,000) were pledged as security for loan facilities granted by the banks.

18. Share Capital

| | Number of shares | HK\$'000 |
|--|------------------|----------------|
| Ordinary shares of HK\$0.10 each | | |
| Authorised: | | |
| At 1 January 2006 and 30 June 2006 | 3,000,000,000 | 300,000 |
| Issued and fully paid: | | |
| At 1 January 2006 | 904,233,560 | 90,423 |
| Issue of shares on conversion of convertible bonds | 33,544,820 | 3,355 |
| At 30 June 2006 | 937,778,380 | 93,778 |
| | | RMB'000 |

Presented in financial statements as:

| | |
|--|--------|
| At 1 January 2006 | 95,819 |
| Issue of shares on conversion of convertible bonds | 3,556 |
| At 30 June 2006 | 99,375 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

19. Convertible Bonds

On 15 November 2004, the Company issued zero coupon convertible bonds ("CB") with a principal amount of HK\$550,000,000 (equivalent to approximately RMB583,000,000). The net proceeds amounted to HK\$534,205,000 (equivalent to approximately RMB566,257,000) after the deduction of issue costs of HK\$15,795,000 (equivalent to approximately RMB16,743,000). Unless previously redeemed, converted or purchased and cancelled, the CB will be redeemed at 106.43% of the principal amount on 15 November 2009. The CB can be converted into the Company's ordinary shares of HK\$0.1 each at the conversion price of HK\$5.4375 during the period from 15 December 2004 to 15 November 2009, and will be subject to adjustment in the event of further issues of shares or other dilution events. The CB are listed on the Stock Exchange (Stock Code: 2598). Details of the issue of the CB were disclosed in the Company's announcements dated 26 October 2004 and 29 November 2004.

During the period, 33,544,820 shares were issued in relation to the conversion of CB to shares by various CB holders. As a result, principal amount of CB was reduced by HK\$182,400,000 (equivalent to approximately RMB189,696,000).

According to the terms of conditions of the CB, the bondholders will have the right, at the bondholder's option, to require the Company to redeem all or some of the CB at 103.16% of their principal amount on 15 May 2007. The directors consider that the fair value of such option would not be significant given the current market share price of the Company. According to the terms and condition of the CB, on or at any time after 15 May 2007 and prior to the maturity date, the Company may redeem all but not some of the CB at the early redemption amount as defined in the subscription agreement of the CB if (i) the closing price of the shares, for each of any 20 Trading Days within a period of 30 consecutive trading days, the last day of such 30-trading day period falls within five trading days prior to the date upon which notice of such redemption is given was at least 130% of the conversion price in effect on each such trading day or (ii) at least 90% in principal amount of the CB has already been converted, redeemed or purchased and cancelled. The directors consider that the fair value of such option would not be significant.

20. Guaranteed Notes

During the year ended 31 December 2005, the Company issued guaranteed notes in the aggregate principal amount of US\$200,000,000 (equivalent to approximately RMB1,614,040,000) which are unsecured, unconditionally and irrecoverably guaranteed by certain subsidiaries of the Company.

The guaranteed notes are denominated in US dollars at fixed interest rate of 7.375% per annum due in August 2012.

According to the terms and conditions of the guaranteed notes, at any time or from time to time prior to the maturity date, the Company may at its option to redeem the notes at a redemption price equal to 100% of the principal amount thereof plus the applicable premium plus accrued and unpaid interest to such redemption date. The directors consider that the fair value of such option would not be significant.

21. 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 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

22. Subsequent Adjustments to Fair Values

The effects of the adjustments to fair values at the acquisition date of the identifiable assets, liabilities and contingent liabilities on 31 December 2005 are summarised below:

| | As at 31 December 2005 (Originally stated) | Fair value adjustments | As at 31 December 2005 (Restated) |
|--|---|-----------------------------------|--|
| | RMB'000 | RMB'000 | RMB'000 |
| Goodwill | 147,996 | (15,207) | 132,789 |
| Rights of operation | 14,620 | 39,861 | 54,481 |
| Customer base | – | 2,790 | 2,790 |
| Deferred taxation | (8,398) | (13,180) | (21,578) |
| Total effects on assets and liabilities | | 14,264 | |
| Accumulated profits | 888,747 | 5,637 | 894,384 |
| Minority interests | 518,779 | 8,627 | 527,406 |
| Total effects on equity | | 14,264 | |

The effect of the adjustments to fair values described above on the results for the prior period are as follows:

| | 2005 RMB'000 |
|--|-------------------------|
| Increase in other income in respect of discount on acquisition | 10,898 |
| Increase in profit for the period | 10,898 |
| Attributable to: | |
| Equity holders of the Company | 5,993 |
| Minority interests | 4,905 |
| | 10,898 |
| Increase in basic earnings per share | 0.7 cents |
| Increase in diluted earnings per share | 0.6 cents |



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

23. Additional Capital Injection into Subsidiaries

As mentioned in note 10(d), the minority shareholder of an existing subsidiary in the PRC, namely 湛江新奥燃气有限公司, injected the assets and liabilities in relation to its LPG business at nil consideration on 1 January 2006.

The provisional fair values of assets and liabilities acquired in the transaction are as follows:

| | Carrying amount before combination RMB'000 | Fair value adjustments RMB'000 | Fair values RMB'000 |
|---|--|--------------------------------------|------------------------|
| Property, plant and equipment | 101,586 | (9,497) | 92,089 |
| Available-for-sale investments | 6,535 | – | 6,535 |
| Inventories | 901 | – | 901 |
| Bank balances and cash | 1,975 | – | 1,975 |
| Trade and other receivables | 58,330 | (12,214) | 46,116 |
| Trade and other payables | (41,510) | (20,309) | (61,819) |
| Bank and other loans — due after one year | (136,216) | – | (136,216) |
| | (8,399) | (42,020) | (50,419) |
| Minority interest | | | 5,042 |
| Goodwill recognised | | | 45,377 |
| Total consideration | | | – |
| Cash inflow arising from the transaction: | | | |
| Bank balances and cash acquired | | | 1,975 |

The goodwill arising on the acquisition of 湛江新奥燃气有限公司 is attributable to its anticipated profitability upon turning LPG business into natural gas business and the additional coverage of gas business in Zhanjiang area in the PRC. Since the natural gas business in the PRC has barrier of entry, the directors considered that such barrier of entry allows 湛江新奥燃气有限公司 to exercise monopolistic power in the market and able to obtain a steady future cash inflow.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

23. Additional Capital Injection into Subsidiaries – continued

During the period, the registered capital of 石家莊新奧燃氣有限公司, an existing subsidiary of the Company, increased from RMB130,000,000 to RMB300,000,000. The additional capital of RMB170,000,000 was contributed by the Group and the minority shareholder of RMB89,000,000 and RMB81,000,000 respectively. The Group injected capital into the subsidiary in cash and the minority shareholder injected capital into the subsidiary in the form of cash and non-cash assets and liabilities in relation to its coal gas business. After the additional capital contribution, the interest in the subsidiary held by the Group decreased from 70% to 60%.

The provisional fair values of assets and liabilities contributed by the minority shareholder for the additional capital injection of RMB81,000,000 during the period and the gain on dilution of interest in the subsidiary from 70% to 60% by the Group are as follows:

| | Carrying amount before combination RMB'000 | Fair value adjustments RMB'000 | Fair value RMB'000 |
|---|--|--------------------------------------|-----------------------|
| Property, plant and equipment | 246,164 | – | 246,164 |
| Right of operation | 20,107 | 95,893 | 116,000 |
| Customer base | – | 26,400 | 26,400 |
| Available-for-sale investment | 360 | (101) | 259 |
| Inventories | 103,081 | (12,199) | 90,882 |
| Trade and other receivables | 86,040 | (43,901) | 42,139 |
| Bank balances and cash | 19,762 | 1,148 | 20,910 |
| Trade and other payable | (274,514) | – | (274,514) |
| Bank loan | (120,000) | – | (120,000) |
| Deferred taxation | – | (38,448) | (38,448) |
| | 81,000 | 28,792 | 109,792 |
| Minority interest | | | (43,917) |
| Gain on dilution | | | (15,144) |
| Total consideration | | | 50,731 |
| Cash inflow arising from the transaction: | | | |
| Bank balances and cash acquired | | | 20,910 |

The business acquired contributed to the Group's revenue of RMB62,262,000 and profit before taxation RMB1,783,000 to the Group's profit for the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

24. Share Options

The Company has a share option scheme for eligible employees and directors of the Group. Details of the share options outstanding during the current period are as follows:

| | Number of share options |
|--|----------------------------|
| Outstanding at the beginning of the period | 1,700,000 |
| Granted during the period | 57,700,000 |
| Outstanding at the end of the period | 59,400,000 |

In the current period, share options were granted on 15 March 2006. The closing price of the Company's shares immediately before the date of grant was HK\$6.2. The fair values of the options determined at the dates of grant using the Binomial model were HK\$1.4 per share option.

The assumptions were used to calculate the fair values of share options are that the share price and exercise price are both HK\$6.65. The expected life of options is 3 years. The expectation of early exercises has been incorporated into the Binomial model. The volatility is 33%. The expected dividend yield is 1.5% and the risk free rate is 4.8%.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

50% of the option are exercisable from the expiry of 6 months from the date of grant of option and the remaining 50% are exercisable from 24 months from the date of grant up to 10 years from the date of grant.

The Group recognised the total expense of RMB30,317,000 for the six months ended 30 June 2006 in relation to share options granted by the Company.

25. Contingent Liabilities

During the period, the Group has issued guarantees to banks to secure loan facilities granted to a jointly controlled entity to the extent of RMB37,000,000 while guarantees to banks to secure loan facilities granted to that jointly controlled entity of RMB17,000,000 in prior year, were released upon the repayment of loans.

At 30 June 2006, the Group had totally issued guarantees to banks to secure loan facilities granted to an associate and a jointly controlled entity to the extent of RMB40,000,000 (31 December 2005: RMB40,000,000) and RMB66,500,000 (31 December 2005: RMB46,500,000) respectively, of which RMB33,460,000 (31 December 2005: RMB40,000,000) and RMB66,500,000 (31 December 2005: RMB37,000,000) had been utilized respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

26. Related Party Transactions

Six months ended 30 June

| Nature of transaction | Name of related party | Six months ended 30 June | |
|---|-----------------------|--------------------------|-----------------|
| | | 2006 RMB'000 | 2005 RMB'000 |
| Provision of gas connection service to related parties | 廊坊新奧房地產開發有限公司 | 269 | 3,732 |
| | 新奧集團股份有限公司 | 413 | 68 |
| | | 682 | 3,800 |
| Provision of gas connection service to a minority shareholder | 北京市昌平市政經濟發展總公司 | – | 5 |
| Sales of gas to related parties | 安瑞科(蚌埠)壓縮機有限公司 | 29 | 44 |
| | 新奧集團艾力楓社酒店有限公司 | 651 | 588 |
| | 廊坊新奧物業管理有限公司 | – | 4,439 |
| | 新奧集團股份有限公司 | 63 | 145 |
| | 廊坊新奧房地產開發有限公司 | – | 36 |
| | 石家莊安瑞科氣體機械有限公司 | 14 | – |
| | | 757 | 5,252 |
| Sales of gas to a minority shareholder | 蘭溪東昇能源有限公司 | 4 | – |
| Sales of gas to an associate | 東莞新奧莞樟燃氣有限公司 | 2,070 | 136 |
| Sales of gas to a jointly controlled entity | 東莞新奧燃氣有限公司 | 11,027 | 2,439 |
| Purchase of gas from jointly controlled entities | 鹿泉富新燃氣有限公司 | 2,721 | – |
| | 鹽城新奧壓縮天然氣有限公司 | 14,361 | 10,243 |
| | | 17,082 | 10,243 |
| Purchase of gas from an associate | 北海新奧燃氣有限公司 | 2,884 | – |
| Sales of materials to jointly controlled entities | 東莞新奧燃氣有限公司 | 1,815 | 1,458 |
| | 湖州新奧燃氣發展有限公司 | 138 | 321 |
| | 湖州新奧燃氣有限公司 | 1 | – |
| | 鹿泉富新燃氣有限公司 | 343 | – |
| | 煙台新奧燃氣發展有限公司 | 2,896 | – |
| | | 5,193 | 1,779 |
| Sales of materials to associates | 東莞厚街新奧燃氣有限公司 | 4,761 | – |
| | 東莞新奧莞樟燃氣有限公司 | 4 | – |
| | | 4,765 | – |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

26. Related Party Transactions – continued

Six months ended 30 June

| Nature of transaction | Name of related party | 2006 | 2005 |
|---|--------------------------------|---------|---------|
| | | RMB'000 | RMB'000 |
| Lease of premises to related parties | 廊坊新奧房地產開發有限公司 | 165 | 165 |
| | 新奧集團股份有限公司 | 869 | 869 |
| | Enric Investment Group Limited | 158 | – |
| | | 1,192 | 1,034 |
| Lease of premises from minority shareholders | 海寧萬通燃氣有限公司 | 25 | 75 |
| | 海寧民泰煤氣有限公司 | 60 | 210 |
| | | 85 | 285 |
| Provision for management services by related parties | 廊坊新奧物業管理有限公司 | – | 691 |
| | 新奧集團艾力楓社酒店有限公司 | 793 | – |
| | | 793 | 691 |
| Purchase of compressed natural gas truck trailers, pressure regulating and gas equipment from related parties | 石家莊安瑞科氣體機械有限公司 | 4,332 | 33,650 |
| | 安瑞科(蚌埠)壓縮機有限公司 | 6,091 | 2,040 |
| | 安瑞科(廊坊)能源裝備集成有限公司 | 780 | 12,100 |
| | 新奧集團石家莊化工機械股份有限公司 | – | 60 |
| | | 11,203 | 47,850 |
| Deposit for purchase of compressed natural gas truck trailers, pressure regulating and gas equipment to related parties | 石家莊安瑞科氣體機械有限公司 | 11,587 | – |
| | 安瑞科(廊坊)能源裝備有限公司 | 20,980 | – |
| | | 32,567 | – |
| Provision of decoration services from a related party | 廊坊新奧建築安裝工程有限公司 | 3,240 | – |
| Deposits of purchasing services from a related party | 新奧集團股份有限公司 | 603 | – |
| Deposit of purchasing services from a jointly controlled entity | 煙台新奧燃氣發展有限公司 | 1,411 | – |
| Provision of property management service to a related party | 新奧集團股份有限公司 | 181 | – |
| Donation to a related party (i) | 新奧慈善基金會 | 4,000 | – |
| Loan interest from jointly controlled entities (ii) | 鹽城新奧壓縮天然氣有限公司 | 53 | – |
| | 煙台新奧燃氣發展有限公司 | 1,806 | – |
| | | 1,859 | – |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

26. Related Party Transactions – continued

Six months ended 30 June

| Nature of transaction | Name of related party | Six months ended 30 June | |
|---|-----------------------|--------------------------|-----------------|
| | | 2006 RMB'000 | 2005 RMB'000 |
| Loan interest from an associate (ii) | 北海新奧燃氣有限公司 | 2,290 | – |
| Provision of gas transportation services to jointly controlled entities | 煙台新奧燃氣發展有限公司 | 737 | – |
| | 東莞新奧燃氣有限公司 | 15,131 | – |
| | | 15,868 | – |
| Provision of gas transportation services to an associate | 東莞新奧莞樟燃氣有限公司 | 2,378 | – |
| Purchase of assets from a minority shareholder | 常州武進燃氣有限公司 | – | 706 |
| Payments on behalf of a minority shareholder (iii) | 湛江市燃氣集團公司 | 3,635 | – |
| Provision of construction service from a minority shareholder | 汕頭市澄海燃氣建設有限公司 | 1,457 | – |
| Loan advance to an associate (ii) | 北海新奧燃氣有限公司 | 26,000 | – |
| Loan advance to a jointly controlled entity (ii) | 煙台新奧燃氣發展有限公司 | 69,000 | – |
| Guarantee issued to a bank to secure loan facility granted to an associate | 北海新奧燃氣有限公司 | – | 40,000 |
| Guarantees issued to banks to secure loan facility granted to a jointly controlled entity | 煙台新奧燃氣發展有限公司 | 37,000 | 26,500 |

All the above related parties are controlled by Mr. Wang who is the major shareholder and director of the Company, except the minority shareholders of subsidiaries, associates and jointly controlled entities as indicated above.

Notes:

- (i) 新奧慈善基金會 is a non-profit making organisation of which Mr. Wang is the legal representative.
- (ii) The loan advances are unsecured, carried interest at prevailing market rate and repayable according to the terms of agreements.
- (iii) Payments made on behalf of minority shareholders are unsecured, interest free and repayable on demand.

In addition, 39,500,000 share options were granted to the directors of the Company during the period. Details of the share options are disclosed in note 24. Share-based payment expense in relation to the options granted to the directors of RMB20,754,000 (six months ended 30 June 2005: nil) and other short-term benefits of RMB2,839,000 (six months ended 30 June 2005: RMB2,688,000) were recognised in the condensed consolidated income statement during the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

27. Events after the Balance Sheet Date

In July and August 2006, convertible bondholders with face value of HK\$13,190,000 (equivalent to approximately RMB13,578,000) submitted conversion notices to the Company. The Company issued 2,425,746 shares of HK\$0.1 each to the convertible bondholders in accordance with the terms and conditions of the convertible bonds and the conversion price was HK\$5.4375 per share. These shares rank pari passu with the existing shares in all respects. The total issued share capital of the Company was increased to 940,204,126 shares after the conversion.

Subsequent to 30 June 2006, the Group has set up certain companies established in the PRC. Details of the investments are summarised as follows:

| Name of company | Capital contribution by the Group | Proportion of nominal value of registered capital held by the Group | Principal activities |
|---|-----------------------------------|---|--|
| 來安新奧燃氣有限公司 ("Laian Xiniao Gas Company Limited") | US\$1,900,000 | 95% | Sales of piped gas |
| 來安新奧燃氣工程有限公司 ("Laian Xiniao Gas Engineering Company Limited") | US\$570,000 | 95% | Investment in gas pipeline infrastructure |
| 烟台牟平新奧天然氣加氣有限公司 ("Yantai Mouping Xiniao Natural Gas Refuelling Company Limited") | RMB5,600,000 | 58% | Operation and construction of gas station for vehicle use |
| 巢湖新奧車用燃氣有限公司 ("Chaohu Xiniao Vehicle Gas Company Limited") | US\$540,000 | 100% | Provision of gas for vehicles use, conversion and repair of vehicles |

OTHER INFORMATION

DISCLOSURE OF INTERESTS

Directors' interests or short positions in shares and in share options

As at 30 June 2006, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

| Name of Director | Capacity | Interests in shares | | | | Total interests in shares | Interests in underlying shares pursuant to share options | Total aggregate interests in shares and underlying shares | Approximate percentage of the Company's total issued share capital |
|--------------------------------|---|-----------------------|-------------------------|-----------------------|-------------|---------------------------|--|---|--|
| | | Personal interests | Corporate interests | Family interests | | | | | |
| Mr. Wang Yusuo ("Mr. Wang") | Beneficial owner and interest of controlled corporation | 2,594,000 (Note 2) | 339,275,000 (Note 1) | - | 341,869,000 | 700,000 (Note 3) | 342,569,000 | 36.53% | |
| Ms. Zhao Baoju ("Ms. Zhao") | Interest of spouse and interest of controlled corporation | - | 339,275,000 (Note 1) | 2,594,000 (Note 2) | 341,869,000 | 700,000 (Note 3) | 342,569,000 | 36.53% | |
| Mr. Yang Yu | Beneficial owner | - | - | - | - | 8,000,000 | 8,000,000 | 0.85% | |
| Mr. Chen Jiacheng | Beneficial owner | - | - | - | - | 6,500,000 | 6,500,000 | 0.69% | |
| Mr. Zhao Jinfeng | Beneficial owner | - | - | - | - | 6,500,000 | 6,500,000 | 0.69% | |
| Mr. Qiao Limin | Beneficial owner | - | - | - | - | 6,500,000 | 6,500,000 | 0.69% | |
| Mr. Yu Jianchao | Beneficial owner | - | - | - | - | 6,500,000 | 6,500,000 | 0.69% | |
| Mr. Cheung Yip Sang | Beneficial owner | - | - | - | - | 5,700,000 | 5,700,000 | 0.61% | |
| Mr. Cheng Chak Ngok | Beneficial owner | - | - | - | - | 800,000 | 800,000 | 0.09% | |

Notes:

1. The two references to 339,275,000 shares relate to the same block of shares. Such shares are held by Xiniao Group International Investment Limited ("XGII"), which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang.
3. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

OTHER INFORMATION

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' rights to acquire shares".

Save as disclosed above, as at 30 June 2006, the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

Directors' rights to acquire shares

Pursuant to the Company's share option schemes, the Company has granted options on the Company's ordinary shares in favour of certain Directors, the details of which are as follows:

| Name of Director | Date of grant | Exercise period (Note 1) | Exercise price (HK\$) (Note 2) | Number of shares subject to outstanding options as at 1 January 2006 | Number of options granted during the Period | Number of shares subject to outstanding options as at 30 June 2006 | Approximate percentage of the Company's total issued share capital |
|---------------------|--|---|--------------------------------------|--|---|--|--|
| Mr. Wang | 14.02.2003 | 15.02.2005 – 14.02.2013 | 2.265 | 700,000 (Note 3) | – | 700,000 | 0.07% |
| Ms. Zhao | 14.02.2003 | 15.02.2005 – 14.02.2013 | 2.265 | 700,000 (Note 3) | – | 700,000 | 0.07% |
| Mr. Yang Yu | 14.02.2003 15.03.2006 15.03.2006 | 15.02.2005 – 14.02.2013 16.09.2006 – 15.03.2016 16.03.2008 – 15.03.2016 | 2.265 6.650 6.650 | 1,000,000 | 3,500,000 3,500,000 | 8,000,000 | 0.85% |
| Mr. Chen Jiacheng | 15.03.2006 15.03.2006 | 16.09.2006 – 15.03.2016 16.03.2008 – 15.03.2016 | 6.650 6.650 | – | 3,250,000 3,250,000 | 6,500,000 | 0.69% |
| Mr. Zhao Jinfeng | 15.03.2006 15.03.2006 | 16.09.2006 – 15.03.2016 16.03.2008 – 15.03.2016 | 6.650 6.650 | – | 3,250,000 3,250,000 | 6,500,000 | 0.69% |
| Mr. Qiao Limin | 15.03.2006 15.03.2006 | 16.09.2006 – 15.03.2016 16.03.2008 – 15.03.2016 | 6.650 6.650 | – | 3,250,000 3,250,000 | 6,500,000 | 0.69% |
| Mr. Yu Jianchao | 15.03.2006 15.03.2006 | 16.09.2006 – 15.03.2016 16.03.2008 – 15.03.2016 | 6.650 6.650 | – | 3,250,000 3,250,000 | 6,500,000 | 0.69% |
| Mr. Cheung Yip Sang | 15.03.2006 15.03.2006 | 16.09.2006 – 15.03.2016 16.03.2008 – 15.03.2016 | 6.650 6.650 | – | 2,850,000 2,850,000 | 5,700,000 | 0.61% |
| Mr. Cheng Chak Ngok | 15.03.2006 15.03.2006 | 16.09.2006 – 15.03.2016 16.03.2008 – 15.03.2016 | 6.650 6.650 | – | 400,000 400,000 | 800,000 | 0.09% |
| Total | | | | 1,700,000 | 39,500,000 | 41,200,000 | |

OTHER INFORMATION

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. The closing price of the shares immediately before the date on which the options were granted during the Period was HK\$6.200.
3. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

The fair value per share option is provided in Note 24 to the Financial Statements.

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

As at 30 June 2006, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

| Name of shareholder | Capacity | Personal interests | Interests in shares | | | Total interests in shares | Interests in underlying shares pursuant to share options | Total aggregate interests in shares and underlying shares | Approximate percentage of the Company's total issued share capital |
|---|---|-----------------------|-------------------------|-----------------------|-------------|---------------------------|--|---|--|
| | | | Corporate interests | Family interests | | | | | |
| Mr. Wang | Beneficial owner and interest of controlled corporation | 2,594,000 (Note 2) | 339,275,000 (Note 1) | - | 341,869,000 | 700,000 (Note 3) | 342,569,000 (L) | 36.53% | |
| Ms. Zhao | Interest of spouse and interest of controlled corporation | - | 339,275,000 (Note 1) | 2,594,000 (Note 2) | 341,869,000 | 700,000 (Note 3) | 342,569,000 (L) | 36.53% | |
| XGII (formerly known as Easywin Enterprises Limited) | Beneficial owner | - | 339,275,000 (Note 1) | - | 339,275,000 | - | 339,275,000 (L) | 36.18% | |
| Capital Research and Management Company | Investment manager | - | 91,587,000 | - | 91,587,000 | - | 91,587,000 (L) | 9.77% | |

OTHER INFORMATION

| Name of shareholder | Capacity | Personal interests | Interests in shares | | | Total interests in shares | Interests in underlying shares pursuant to share options | Total aggregate interests in shares and underlying shares | Approximate percentage of the Company's total issued share capital |
|--------------------------------|--|--------------------|------------------------|------------------|------------|---------------------------|--|---|--|
| | | | Corporate interests | Family interests | | | | | |
| JPMorgan Chase & Co. | Investment manager and custodian corporation/ approved lending agent | - | 62,191,805 | - | 62,191,805 | - | 62,191,805 (L) (including 19,969,644 (P)) | 6.63% | |
| Penta Investment Advisers Ltd. | Investment manager | - | 49,779,768 (Note 4) | - | 49,779,768 | - | 49,779,768 (L) | 5.31% | |
| Mr. John Zwaanstra | Interest of controlled corporation | - | 49,779,768 (Note 4) | - | 49,779,768 | - | 49,779,768 (L) | 5.31% | |

Notes:

- 1 The three references to 339,275,000 shares relate to the same block of shares. Such shares are held by XGII which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
- 2 Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang.
- 3 Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.
- 4 The two references to 49,779,768 shares relate to the same block of shares. Such shares are held by Penta Investment Advisers Ltd., which is 100% owned by Mr. John Zwaanstra, in the capacity of an investment manager.
- 5 (L) represents Long Position; (P) represents Lending Pool.

Save as disclosed above, as at 30 June 2006, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company. Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 30 June 2006, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "2002 Scheme") pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002.

The following tables disclose details of the Company's share options held by the employees (including directors) and movements in such holdings under the 2002 Scheme during the Period:

| Grantee | Date of grant | Exercise period (Note 1) | Exercise price (HK\$) (Note 2) | Number of shares subject to outstanding options as at 1 January 2006 | Number of options granted during the Period | Number of shares subject to outstanding options as at 30 June 2006 | Approximate percentage of the Company's total issued share capital |
|-----------|---------------|-----------------------------|--------------------------------------|--|---|--|--|
| Directors | 14.02.2003 | 15.02.2005 – 14.02.2013 | 2.265 | 1,700,000 | | 41,200,000 | 4.39% |
| | 15.03.2006 | 16.09.2006 – 15.03.2016 | 6.650 | | 19,750,000 | | |
| | 15.03.2006 | 16.03.2008 – 15.03.2016 | 6.650 | | 19,750,000 | | |
| Employees | 15.03.2006 | 16.09.2006 – 15.03.2016 | 6.650 | | 9,100,000 | 18,200,000 | 1.94% |
| | 15.03.2006 | 16.03.2008 – 15.03.2016 | 6.650 | | 9,100,000 | | |
| Total | | | | 1,700,000 | 57,700,000 | 59,400,000 | 6.33% |

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. The closing price of the shares immediately before the date on which the options were granted during the Period was HK\$6.200.

No share option was lapsed or cancelled during the Period.

The fair value per share option is provided in Note 24 to the Financial Statements.

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.

OTHER INFORMATION

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.

LOAN AGREEMENTS IMPOSING SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDERS

The Company has entered into a loan agreement which requires Mr. Wang and Ms. Zhao, the controlling shareholders of the Company, to retain his shareholding of the Company not less than 35% of the total issued share capital of the Company throughout the term of the loan agreement, which is 5 years from 18 May 2004. The total amount of the loans involved is US\$25,000,000 (equivalent to RMB199,890,000).

INTERESTS IN COMPETITORS

During the Period, none of the Directors or the management shareholders of the Company or their respective associates had an interest in a business which competes or may compete with the business of the Group.

By the order of the Board
WANG Yusuo
Chairman

Hong Kong, 20 September 2006



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