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Dear Shareholders,

The Board of Directors (the “Directors”) of Xinao Gas Holdings Limited (the “Company” and together with its subsidiaries, the “Group”) announces that the unaudited profit attributable to shareholders of the Group for the six months ended 30 June 2003 (the “Relevant Period”) was RMB65,507,000, representing an increase of RMB25,048,000 or 61.9% as compared to RMB40,459,000 of the corresponding period last year.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

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

	Six months ended		Increase (Decrease)
	2003	30 June 2002	
Turnover (RMB)	334,552,000	167,243,000	1 time
Gross profit (RMB)	139,498,000	86,616,000	61.1%
Profit attributable to shareholders (RMB)	65,507,000	40,459,000	61.9%
Earnings per share – Basic (RMB)	8.9 cents	5.9 cents	50.8%
Connectable population	14,644,000	4,969,000	1.9 times
Connectable residential households	4,881,000	1,656,000	1.9 times
New connections made to residential households during the Relevant Period	68,821	22,878	2 times
New connections made to commercial/industrial customers during the Relevant Period	105	67	56.7%
New installed designed daily capacity for commercial/industrial customers during the Relevant Period (m ³)	128,218	53,891	1.4 times
Accumulated connections made to residential households	279,671	130,879	1.1 times
Accumulated connections made to commercial/industrial customers	607	422	43.8%
Accumulated installed designed daily capacity for commercial/industrial customers (m ³)	493,332	323,638	52.4%
Gas penetration rate for residential households	5.7%	7.9%	–
Unit of natural gas sold to residential households (m ³)	13,564,000	5,636,000	1.4 times
Unit of natural gas sold to commercial/industrial customers (m ³)	31,695,000	13,533,000	1.3 times
Unit of Liquefied Petroleum Gas (“LPG”) sold (ton)	22,430	16,682	34.5%
Existing length of intermediate and main pipelines (km)	1,291	558	1.3 times
Number of processing stations	28	14	14

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Pipeline Construction

During the Relevant Period, gas connection fees revenue reached RMB190,807,000, representing an increase of 93.5% over the corresponding period last year and accounting for 57.0% of the total revenue. The average connection fees for residential households and commercial/industrial customers were RMB2,325 and RMB587 (per m³) respectively, decreasing 10% and increasing 2% respectively as compared to the average connection fees in 2002. The decrease in the average connection fees for residential households was mainly because the major connection fees revenue in the past had included the charges for cooking stoves, which were not included in the connection fees in the new projects, and also, the Group offered special price to attract more households to make connections to and use natural gas.

The new installed designed daily capacity for commercial/industrial customers increased 1.4 times as compared to the corresponding period last year. As an installed designed daily capacity of 75,000 m³ was transferred to the Group when the Group obtained the Shijiazhuang project, it was not included in the connection fees revenue from commercial/industrial customers. The Group expects that when the West-to-East Pipelines complete and the supply of natural gas commences in 2004, the gas supplying capacities of the projects along the West-to-East Pipelines will increase tremendously, and the connections made to commercial/industrial customers will also increase accordingly. These will further strengthen the Group's stable long term revenue.

Gas Sales

During the Relevant Period, natural gas sales revenue reached RMB69,072,000, representing an increase of 1.4 times over the corresponding period last year and accounting for 20.6% of the total revenue, and the sales volume of natural gas also increased by 1.4 times. The strong increase in natural gas sales did not just come from quality new projects the Group had successfully obtained, but also from successful marketing in existing projects. The high growth in the sales of natural gas also fully reflected that the use of natural gas as a quality energy source was well-received by the public.

During the Relevant Period, LPG sales revenue reached RMB71,373,000, representing an increase of 82.6% over the corresponding period last year and accounting for 21.3% of the total revenue. The main source of revenue growth came from the huge volume of LPG sales made by Huaian Xinao Gas Company Limited ("Huaian Xinao"), which was set up in September 2002 by the Group, and its sales volume accounted for 46.6% of the total volume of LPG sales. The operating profit of LPG turned around from a loss of RMB1,874,000 in 2002 to a profit of RMB3,791,000 during the Relevant Period; the main reason for turning loss into profit in LPG sales was that Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), by the time it was set up, was allowed to raise the selling price of LPG by 20% starting from May this year, and the LPG sales volume made by Bengbu Xinao accounted for 41.4% of the total volume of LPG sales.

Distribution of natural gas is the main business of the Group. A few project companies' main business had been the sale of LPG before being acquired by the Group. However, after these few projects being acquired by the Group and the new project companies being incorporated, they have all started the construction of natural gas pipeline network, and the West-to-East Pipelines Project is about to be completed, so the Group expects that the sales of LPG in all these projects will be replaced by piped natural gas eventually.

Gross and Net Profit Margins

When compared to the corresponding period last year, the consolidated gross and net profit margins of the Group decreased from 51.8% and 24.2% in the first half of 2002 to 41.7% and 19.6% in the Relevant Period. The main reason for the decrease was the huge volume of LPG sales during the Relevant Period. Excluding the sales of LPG, gross and net profit margins still remained at 52.1% and 23.9% respectively. As the sales of LPG will decrease steadily, the consolidated gross and net profit margins are expected to increase correspondingly.

New Projects

During the Relevant Period, the Group secured the following 7 new projects:

Jiangsu Province:	Wujin
Zhejiang Province:	Lanxi, Wenzhou and Jinhua
Anhui Province:	Chaohu
Hunan Province:	Xiangtan
Guangdong Province:	Dongguan

Connectable population also rose enormously to 14,644,000 as at the end of June 2003, representing an increase of 1.9 times from 4,969,000 as in June last year, and the piped gas penetration rate for residential households was only 5.7%. The increase in new projects and the potential commercial/industrial customers will significantly strengthen the Group's current and future income. The most significant one is the project in Dongguan, Guangdong Province: with a connectable population of 3,870,000 and about 18,000 industrial enterprises, among which 16,000 are Sino-foreign joint ventures, it is currently the Group's largest project. It is expected that when the Guangdong Liquefied Natural Gas ("LNG") Terminal is connected and starts to supply gas in 2006, the Dongguan Project will contribute considerable revenue to the Group.

To strengthen the Group's professional management, every project company is going to split into two, and this is expected to be finished by the end of this year. This split separates the pipeline construction business and gas distribution business of each original project company into two companies, and the different professional teams can manage and operate the corresponding companies more professionally, so resources can be used more effectively. When the split is finished, the number of subsidiary companies will double, but the number of operation locations will remain the same.

Human Resources and Productivity

As at 30 June 2003, the total number of staff employed by the Group was 3,507, of which six were based in Hong Kong. The number of staff increased 80.4% as compared to the corresponding period last year, while the connectable population increased 1.9 times, and the productivity of the staff increased more than 1 time. The staff were remunerated at market level with benefits such as bonus, retirement benefit and share option schemes.

Financial Resources Review*Liquidity and Capital Resources*

As at 30 June 2003, the Group had cash on hand equivalent to RMB429,467,000 (31 December 2002: RMB631,536,000), while the total bank and other borrowings were equivalent to RMB484,395,000 (31 December 2002: RMB467,428,000), and the net gearing ratio was 5.5%, calculated by dividing net debt over equity.

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

Borrowing Structure

As at 30 June 2003, the Group's total bank and other borrowings were equivalent to RMB484,395,000 (31 December 2002: RMB467,428,000), which included a three-year syndicated loan of US\$30,000,000 signed in September 2002 (equivalent to RMB248,040,000) and a mortgage loan of HK\$12,969,000 (equivalent to RMB13,747,000) with floating interest rates. The remaining borrowings, denominated in Renminbi, were granted by local banks in the PRC to the project companies with fixed interest rates and would be used as their working capital and operating expenditure. Except for a loan amount equivalent to RMB50,931,000 that had to be secured by a net asset value equivalent to RMB69,654,000, all of the other loans were unsecured. Short-term loans were equivalent to RMB201,510,000, while the remaining were long-term loans falling due after more than one year.

As all the operations of the Group were in the PRC, revenues and expenses were mainly denominated in Renminbi. Hence, there was no significant foreign exchange fluctuation exposure. The Group has entered into a currency and interest rate swap contract for a syndicated loan of US\$30,000,000 in order to fix the exchange and interest rates.

Contingent Liabilities

As at 30 June 2003, the Group gave guarantee to a bank in respect of banking facilities granted to a third party to the extent of RMB2,000,000 (31 December 2002: RMB39,500,000).

Prospects

As the West-to East Pipelines Project is about to be completed, the gas supplying capacities of the downstream project companies will increase tremendously, and the number of natural gas users will also increase accordingly. With the Group's abilities to obtain projects in medium-large cities and develop the local natural gas markets, it is expected that the business of the Group is still in the high growth stage, and it will bring high returns to the shareholders.

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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 Xiniao Gas Holdings Limited to review the interim financial report set out on pages 7 to 18.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

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 Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

Deloitte Touche Tohmatsu

Hong Kong, 22 September 2003

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2003

	NOTES	Six months ended 30 June	
		2003 (Unaudited) RMB'000	2002 (Unaudited) RMB'000
Turnover	3	334,552	167,243
Cost of sales		(195,054)	(80,627)
Gross profit		139,498	86,616
Other operating income	4	14,887	8,183
Selling expenses		(8,620)	(4,432)
Administrative expenses		(54,552)	(30,285)
Other operating expenses		(6,228)	(1,200)
Profit from operations	5	84,985	58,882
Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board		-	(5,421)
Finance costs		(9,528)	(4,635)
Share of result of jointly controlled entity		(31)	-
Profit before taxation		75,426	48,826
Taxation	6	(1,593)	(2,181)
Profit before minority interests		73,833	46,645
Minority interests		(8,326)	(6,186)
Profit for the period		65,507	40,459
Dividend	7	-	-
Earnings per share	8		
Basic		8.9 cents	5.9 cents
Diluted		-	5.9 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2003

		At 30 June 2003 (Unaudited) RMB'000	At 31 December 2002 (Audited) RMB'000
	NOTES		
Non-current assets			
Property, plant and equipment	9	1,174,719	905,255
Goodwill		35,260	21,808
Negative goodwill		(1,708)	(1,756)
Interests in jointly controlled entities		2,570	2,500
Deferred tax assets		272	–
		<u>1,211,113</u>	<u>927,807</u>
Current assets			
Inventories	10	56,818	47,023
Trade and other receivables	11	164,606	98,392
Amounts due from customers for contract work		100,723	49,883
Amounts due from related companies		29,496	15,724
Bank balances and cash		429,467	631,536
		<u>781,110</u>	<u>842,558</u>
Current liabilities			
Trade and other payables	12	212,592	181,575
Amounts due to customers for contract work		55,754	45,636
Amounts due to related companies		55,223	18,860
Tax payable		1,464	8,754
Bank and other loans – due within one year	13	201,510	202,016
		<u>526,543</u>	<u>456,841</u>
Net current assets		<u>254,567</u>	<u>385,717</u>
Total assets less current liabilities		<u>1,465,680</u>	<u>1,313,524</u>
Non-current liabilities			
Bank and other loans – due after one year	13	282,885	265,412
Deferred tax liabilities		10,618	10,618
		<u>293,503</u>	<u>276,030</u>
Minority interests		<u>167,193</u>	<u>98,017</u>
Net assets		<u>1,004,984</u>	<u>939,477</u>
Capital and reserves			
Share capital	14	78,122	78,122
Reserves		926,862	861,355
		<u>1,004,984</u>	<u>939,477</u>
Shareholders' funds		<u>1,004,984</u>	<u>939,477</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2003

Six months ended 30 June 2002

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

Six months ended 30 June 2003

	Share capital (Unaudited) RMB'000	Share premium (Unaudited) RMB'000	Special reserve (Unaudited) RMB'000	Goodwill reserve (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Statutory reserves (Unaudited) RMB'000	Revaluation reserve (Unaudited) RMB'000	Total (Unaudited) RMB'000
At 1 January 2003	78,122	579,828	1,167	5,590	249,692	-	25,078	939,477
Profit for the period	-	-	-	-	65,507	-	-	65,507
Transfer to statutory reserves (note b)	-	-	-	-	(33,430)	33,430	-	-
At 30 June 2003	78,122	579,828	1,167	5,590	281,769	33,430	25,078	1,004,984

Notes:

- On 25 March 2002, 110,000,000 shares of HK\$0.10 each were issued at HK\$3.05 per share by way of placing. These shares rank pari passu with the existing shares in all respects. The net proceeds from shares issued were used as general working capital and expansion of the Group.
- 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 2003

	Six months ended 30 June	
	2003 (Unaudited) RMB'000	2002 (Unaudited) RMB'000
Net cash inflow (outflow) from operating activities	11,499	(21)
Net cash outflow from investing activities	(240,797)	(133,915)
Net cash inflow from financing activities	<u>27,229</u>	<u>485,566</u>
(Decrease) increase in cash and cash equivalents	(202,069)	351,630
Cash and cash equivalents at beginning of period	<u>631,536</u>	<u>182,472</u>
Cash and cash equivalents at end of period	<u>429,467</u>	<u>534,102</u>
Balances of cash and cash equivalents represented by:		
Bank balances and cash	<u>429,467</u>	<u>534,102</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2003

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

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

The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2002, except as described in note 2 below.

2. CHANGE IN ACCOUNTING POLICY

Income taxes

In the current period, the Group has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The retrospective adoption of this new standard has not resulted in any significant effect on the financial statements in the prior periods, and accordingly, no prior period adjustment has been made. The effect of the adoption of this new accounting policy has increased the net profit for the current period by RMB223,000.

3. SEGMENT INFORMATION

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

	Six months ended 30 June	
	2003 (Unaudited) RMB'000	2002 (Unaudited) RMB'000
Turnover		
Gas connection fees	190,807	98,598
Distributions of liquefied petroleum gas	71,373	39,091
Sales of piped gas	69,072	28,976
Sales of gas appliances	3,300	578
	<u>334,552</u>	<u>167,243</u>
Profit from operations		
Gas connection fees	135,502	74,019
Distributions of liquefied petroleum gas	3,791	5,073
Sales of piped gas	19,657	16,086
Sales of gas appliances	694	184
Unallocated other operating income	6,887	8,183
Unallocated expenses:		
– depreciation and amortisation	(21,117)	(6,626)
– corporate expenses	(60,429)	(38,037)
	<u>84,985</u>	<u>58,882</u>

4. OTHER OPERATING INCOME

	Six months ended 30 June	
	2003 (Unaudited) RMB'000	2002 (Unaudited) RMB'000
Other operating income include:		
Compensation received (Note a)	8,000	–
Incentive subsidies (Note b)	1,464	3,919
Interest earned from bank deposits	1,532	2,060
	<u>11,000</u>	<u>6,000</u>

Notes:

- a. Under a memorandum signed between the joint venture partners of Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), a subsidiary of the Company, Bengbu Xinao is entitled to receive compensation from the PRC minority shareholder for the operating loss incurred in running the liquefied petroleum gas business due to the delay in obtaining the approval of the increment in selling price from the local government authority. During the period, compensation amounted to RMB8,000,000 was received from the PRC minority shareholder.
- b. The amount represented refund of income tax by the relevant government authorities in the PRC and was recorded in the year when the relevant approval was obtained.

5. PROFIT FROM OPERATIONS

	Six months ended	
	30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit from operations has been arrived at after charging (crediting):		
Allowance for inventories	726	–
Amortisation of goodwill included in other operating expenses	978	293
Depreciation and amortisation of property, plant and equipment	21,117	10,824
Release of negative goodwill included in other operating income	(48)	(48)

6. TAXATION

The charge represents the sum of enterprise income tax in the PRC currently payable and deferred tax credit for the period.

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

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

7. DIVIDEND

The Directors resolved not to pay an interim dividend for the six months ended 30 June 2003 (2002: nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the profit for the period of RMB65,507,000 (2002: RMB40,459,000) and 737,000,000 (2002: weighted average of 685,950,276) shares in issue during the period.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those share options is higher than the average market price for shares for the six months ended 30 June 2003.

The calculation of diluted earnings per share for the period ended 30 June 2002 was based on the profit for the period of RMB40,459,000 and the adjusted weighted average of 691,416,781 shares, after taking into account of the effect of dilutive share options, in issue during the period.

9. MOVEMENTS OF PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a total cost of approximately RMB291,283,000 (2002: RMB112,329,000).

No revaluation of land and buildings was carried out during the period. The valuation at 31 December 2002 was carried out by Chesterton Petty Limited, a firm of professionally qualified valuers, on an open market value basis. The directors consider the open market value at 31 December 2002 was not significantly different from that at 30 June 2003.

10. INVENTORIES

Included in inventories an amount of RMB2,469,000 (2002: Nil) which were carried at net realisable value.

11. TRADE AND OTHER RECEIVABLES

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

	At 30 June 2003 (Unaudited) RMB'000	At 31 December 2002 (Audited) RMB'000
The following is an aged analysis of trade receivable:		
0 – 3 months	89,007	55,553
4 – 6 months	11,656	7,004
7 – 9 months	19,735	5,377
10 – 12 months	2,266	1,357
Trade receivable	122,664	69,291
Prepayments, deposits and other receivables	41,942	29,034
Amount due from an officer	–	67
	164,606	98,392

12. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payable:

	At 30 June 2003 (Unaudited) RMB'000	At 31 December 2002 (Audited) RMB'000
0 – 3 months	73,156	90,007
4 – 6 months	11,861	13,078
7 – 9 months	25,084	8,943
10 – 12 months	6,875	3,670
More than 1 year	18,560	16,968
Trade payable	135,536	132,666
Accrued charges and other payables	54,435	41,298
Advances received from customers	22,621	7,611
	212,592	181,575

13. BANK AND OTHER LOANS

During the period, the Group obtained new bank and other loans in the amount of RMB100,000,000 (2002: RMB86,771,000) and made repayments in the amount of RMB83,033,000 (2002: RMB123,148,000). The loans bear interest at market rates and are repayable within one to two years. The proceeds were used to finance the capital expenditures and general working capital of the Group.

14. SHARE CAPITAL

	Number of shares	HK\$'000
Share of HK\$0.10 each		
Authorised:		
At 1 January 2003 and 30 June 2003	<u>3,000,000,000</u>	<u>300,000</u>
Issued and fully paid:		
At 1 January 2003 and 30 June 2003	<u>737,000,000</u>	<u>73,700</u>
Presented in financial statements as:		
		RMB'000
At 1 January 2003 and 30 June 2003		<u>78,122</u>

15. CAPITAL COMMITMENTS

	At 30 June 2003 (Unaudited) RMB'000	At 31 December 2002 (Audited) RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for in the financial statements	<u>3,125</u>	<u>9,340</u>

16. CONTINGENT LIABILITIES

	At 30 June 2003 (Unaudited) RMB'000	At 31 December 2002 (Audited) RMB'000
Guarantee given to a bank in respect of banking facilities granted to a third party	<u>2,000</u>	<u>39,500</u>

17. RELATED PARTY TRANSACTIONS

Name of related party	Nature of transaction	Six months ended 30 June	
		2003 RMB'000	2002 RMB'000
廊坊新城房地產開發有限公司 (Note ix)	Provision of gas connection services by the Group (Note i)	–	342
廊坊新奧酒店管理有限公司 (Note ix)	Sales of gas by the Group (Note ii)	233	240
廊坊新奧物業管理有限公司 (Note ix)	Sales of gas by the Group (Note ii)	4,943	3,150
	Provision of management services to the Group (Note iii)	691	528
	Lease of premises by the Group (Note iv)	165	165
新奧集團太陽能有限公司 (Note ix)	Sales of gas by the Group (Note ii)	–	1
新奧集團股份有限公司 (Note ix)	Sales of gas by the Group (Note ii)	74	–
	Lease of premises by the Group (Note iv)	738	738
	Reimbursement of management fee (Note iv)	132	132
新奧集團石家莊化工機械股份 有限公司 (Note ix)	Acquisition of compressed natural gas truck trailers, pressure regulating and gas equipment by the Group (Note v)	10,350	1,450
淮安市燃氣總公司 (Note x)	Interest on loan advance (Note vi)	16	–
新鄉市燃氣總公司 (Note x)	Interest on loan advance (Note vi)	278	–
常州市武進燃氣總公司 (Note x)	Loan advance (Note vi)	29,000	–
	Interest on loan advance (Note vi)	116	–
海寧民泰煤氣公司 (Note x)	Lease of premises to the Group (Note iv)	20	–
海寧萬通燃氣有限公司 (Note x)	Lease of premises to the Group (Note iv)	21	–
安吉豐陵液化氣公司 (Note x)	Purchase of liquefied petroleum gas by the Group (Note vii)	222	–
安瑞科蚌埠壓縮機有限公司 (Note ix)	Provision of gas connection services by the Group (Note i)	190	–
	Provision of repairs and maintenance services to the Group (Note viii)	42	–

Notes:

- (i) The provision of gas connection services was charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (ii) The sales of gas were charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (iii) The provision of management services was determined in accordance with the contract entered into between the Group and the related party.
- (iv) Rentals paid/received for lease of premises and reimbursement of management fee were determined in accordance with the contracts entered into between the Group and the related parties.
- (v) The consideration for acquisition of compressed natural gas truck trailers, pressure regulating and gas equipment was charged in accordance with prices by reference to the similar transactions with outsiders.
- (vi) The loans from minority shareholders are unsecured, carried interest at prevailing market rates and repayable on demand.
- (vii) The consideration for purchase of liquefied petroleum gas was charged in accordance with prices by reference to the similar transactions with outsiders.
- (viii) The consideration for repairs and maintenance services was charged in accordance with the contract entered into between the Group and the related party.
- (ix) These companies are controlled by Mr. Wang Yusuo, the Chairman and controlling shareholder of the Company.
- (x) These companies are minority shareholders of the Group.

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

18. SUBSEQUENT EVENTS

The Group had the following significant events subsequent to the interim reporting date.

- (i) On 19 June 2003, a subsidiary of the Company entered into an agreement with a subsidiary of a minority shareholder whereby the Group agreed to dispose of its entire interest in Anji Xinao Gas Company Limited, an indirect subsidiary of the Company, at a consideration of RMB3,129,400. This transaction was approved by the relevant government authority on 18 July 2003.
- (ii) On 7 August 2003, Xinao Gas China Investment Limited ("China BVI"), an indirectly wholly owned subsidiary of the Company, entered into an agreement with 長沙市燃氣總公司 to establish a sino-foreign equity joint venture, Changsha Xinao Gas Company Limited ("Changsha Xinao"), for the investment in gas pipeline infrastructure and provision of piped gas. The registered capital of Changsha Xinao is RMB150,000,000 and China BVI owns a 55% equity interest.
- (iii) On 22 August 2003, the Group has obtained a syndicated loan in the amount equivalent to approximately RMB372,060,000 (US\$45,000,000), for the purpose of financing the Group's capital injection to new project requirements.
- (iv) On 19 September 2003, Xinao Jiangsu Investment Limited ("Jiangsu BVI"), an indirectly wholly owned subsidiary of the Company, entered into an agreement with 上海岩鑫實業投資有限公司 ("Shanghai Yanxin"), a minority shareholder of the Company's indirect subsidiary, Yancheng Xinao Gas Company Limited ("Yancheng Xinao"), for the acquisition of a 20% equity interest in Yancheng Xinao. After the completion of the acquisition, the legal status of Yancheng Xinao will be changed to a wholly foreign owned enterprise and will be wholly owned by Jiangsu BVI.

OTHER INFORMATION

Disclosure of interests

Director's interests or short positions in shares and in share options

As at 30 June 2003, the interest 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Director	Capacity	Interests in shares		Total interests in shares	Interests in underlying shares pursuant to share options	Aggregate interests	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests				
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	3,044,000	430,000,000 (Note)	433,044,000	2,300,000	435,344,000	59.07%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	3,044,000	430,000,000 (Note)	433,044,000	2,300,000	435,344,000	59.07%
Mr. Yang Yu	Beneficial owner	-	-	-	3,350,000	3,350,000	0.45%
Mr. Chen Jiacheng	Beneficial owner	-	-	-	2,300,000	2,300,000	0.31%
Mr. Zhao Jinfeng	Beneficial owner	-	-	-	2,200,000	2,200,000	0.30%
Mr. Qiao Limin	Beneficial owner	-	-	-	2,050,000	2,050,000	0.28%
Mr. Jin Yongsheng	Beneficial owner	-	-	-	2,100,000	2,100,000	0.28%
Mr. Yu Jianchao	Beneficial owner	-	-	-	2,100,000	2,100,000	0.28%
Mr. Cheung Yip Sang	Beneficial owner	-	-	-	2,000,000	2,000,000	0.27%
Mr. Cheng Chak Ngok	Beneficial owner	-	-	-	600,000	600,000	0.08%

Note: The two references to 430,000,000 shares relate to the same block of shares. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

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 2003, 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 for Securities Transactions by Directors of Listed Companies 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	Exercise Price	Number of shares subject to outstanding options as at 1 January 2003	Number of shares subject to outstanding options as at 30 June 2003	Approximate percentage of the Company's total issued share capital
Mr. Wang	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265	–	2,300,000	0.31%
Ms. Zhao	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265	–	2,300,000 (Note 2)	0.31%
Mr. Yang Yu	31.01.2002 14.02.2003 (Note 5)	01.08.2002 – 31.01.2012 15.08.2003 – 14.02.2013	2.625 2.265	2,400,000 –	– 3,350,000 (Note 3)	– 0.45%
Mr. Chen Jiacheng	31.01.2002 14.02.2003 (Note 5)	01.08.2002 – 31.01.2012 15.08.2003 – 14.02.2013	2.625 2.265	1,700,000 –	– 2,300,000 (Note 3)	– 0.31%
Mr. Zhao Jinfeng	31.01.2002 14.02.2003 (Note 5)	01.08.2002 – 31.01.2012 15.08.2003 – 14.02.2013	2.625 2.265	1,500,000 –	– 2,200,000 (Note 3)	– 0.30%
Mr. Qiao Limin	31.01.2002 14.02.2003 (Note 5)	01.08.2002 – 31.01.2012 15.08.2003 – 14.02.2013	2.625 2.265	1,500,000 –	– 2,050,000 (Note 3)	– 0.28%
Mr. Jin Yongsheng	31.01.2002 14.02.2003 (Note 5)	01.08.2002 – 31.01.2012 15.08.2003 – 14.02.2013	2.625 2.265	1,500,000 –	– 2,100,000 (Note 3)	– 0.28%
Mr. Yu Jianchao	31.01.2002 14.02.2003 (Note 5)	01.08.2002 – 31.01.2012 15.08.2003 – 14.02.2013	2.625 2.265	1,500,000 –	– 2,100,000 (Note 3)	– 0.28%
Mr. Cheung Yip Sang	31.01.2002 14.02.2003 (Note 5)	01.08.2002 – 31.01.2012 15.08.2003 – 14.02.2013	2.625 2.265	1,500,000 –	– 2,000,000 (Note 3)	– 0.27%
Mr. Cheng Chak Ngok	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265	–	600,000	0.08%

No share option was exercised by the above directors to subscribe for shares in the Company during the Relevant Period.

No fair value of the options granted is disclosed as in the opinion of the Directors, certain assumptions need to derive the fair values using the Black-Scholes option pricing model and these cannot be reasonably determined for such share options.

Note:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. 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.
3. All the options to subscribe shares granted to certain directors and employees on 31 January 2002 were cancelled during the Relevant Period.
4. The closing price of the shares immediately before the date on which the options were granted was HK\$2.25.
5. On 14 February 2003, the Directors had granted options to subscribe for an aggregate of 32,300,000 shares of the Company under the share option scheme, representing approximately 4.38% of the issued share capital of the Company as at 30 June 2003, out of which 19,000,000 share options were granted to the Directors and 13,300,000 share options were granted to the employees of the Group. As at 30 June 2003, all of the outstanding options under the share option scheme remained outstanding.

Save as disclosed above, at no time during the Relevant 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 2003, 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	Interests in shares		Total interests in shares	Interests in underlying shares pursuant to share options	Aggregate interests	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests				
Easywin Enterprises Limited	Beneficial owner	-	430,000,000 (Note 1)	430,000,000	-	430,000,000	58.34%
Mr. Wang	Beneficial owner & interest of controlled corporation	3,044,000	430,000,000 (Note 1)	433,044,000	2,300,000	435,344,000	59.07%
Ms. Zhao	Interest of spouse & interest of controlled corporation	3,044,000	430,000,000 (Note 1)	433,044,000	2,300,000 (Note 2)	435,344,000	59.07%
Wellington Management Company, LLP	Investment manager	-	63,172,000	63,172,000	-	63,172,000	8.57%
The Capital Group Companies, Inc.	Investment manager	-	48,257,000	48,257,000	-	48,257,000	6.55%

Notes:

1. The three references to 430,000,000 shares relate to the same block of shares. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. 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.

Save as disclosed above, as at 30 June 2003, 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 2003, 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.

Purchase, Sale or Redemption of Listed Securities

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

Audit Committee

An audit committee was formed in March 2001 to review and supervise the financial reporting process and internal control of the Company. An audit committee meeting was held in September 2003 to review the unaudited interim accounts for the six months ended 30 June 2003. Deloitte Touche Tohmatsu, the Group's external auditors, have carried out a review of the unaudited interim accounts for the six months ended 30 June 2003 in accordance with the Statement of Auditing Standards No.700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. An unmodified review report was issued subsequent to the review.

Corporate Governance

None of the directors of the Company is aware of any information which would reasonably indicate that the Group is not, or was not for any part of the six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

By order of the Board

WANG YUSUO

Chairman

Hong Kong, 22 September 2003



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