

# XINAO GAS HOLDINGS LIMITED

INTERIM REPORT  
2004

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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") announces that the unaudited profit attributable to shareholders of the Group for the six months ended 30 June 2004 (the "Relevant Period") was RMB87,773,000, representing an increase of RMB22,266,000 or 34.0% as compared to RMB65,507,000 for 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 30 June		Increase (Decrease)
	2004 (unaudited)	2003 (unaudited)	
Turnover (RMB)	587,118,000	334,552,000	75.5%
Gross profit (RMB)	232,979,000	139,498,000	67.0%
Profit attributable to shareholders (RMB)	87,773,000	65,507,000	34.0%
Earnings per share – Basic (RMB)	10.6 cents	8.9 cents	19.1%
Connectable population	20,488,000	14,644,000	39.9%
Connectable residential households	6,829,000	4,881,000	39.9%
New connections made to residential households during the Relevant Period	104,142	68,821	51.3%
New connections made to commercial/industrial ("C/I") customers during the Relevant Period	304	105	1.9 times
New installed designed daily capacity for C/I customers during the Relevant Period (m <sup>3</sup> )	187,405	53,218 <sup>(Note 1)</sup>	2.5 times
Accumulated connections made to residential households	566,041 <sup>(Note 2)</sup>	279,671	1.0 time
Accumulated connections made to C/I customers	1,275 <sup>(Note 2)</sup>	607	1.1 times
Accumulated installed designed daily capacity for C/I customers (m <sup>3</sup> )	810,658 <sup>(Note 2)</sup>	493,332	64.3%
Natural gas penetration rate for residential households	8.3%	5.7%	–
Unit of piped gas sold to residential households (m <sup>3</sup> )	56,817,000	13,564,000	3.2 times
Unit of piped gas sold to C/I customers (m <sup>3</sup> )	59,989,000	31,695,000	89.3%
Unit of liquefied petroleum gas ("LPG") sold (ton)	19,522	22,430	(13%)
Total length of existing intermediate and main pipelines (km)	2,690	1,291	1.1 times
Number of processing stations	46	28	18

Notes:

1. Excluding 75,000m<sup>3</sup> from acquisition
2. Including accumulated 80,616 residential customers and 189 commercial/industrial customers (with a total designed daily capacity of 90,460m<sup>3</sup>) from acquisition.

## BUSINESS REVIEW

### *Pipeline Construction*

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

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

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

### *Gas Sales*

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

## *Gross and Net Profit Margins*

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

## *New Projects*

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

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

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

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

#### *Human Resources*

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

### **FINANCIAL RESOURCES REVIEW**

#### *Liquidity and Capital Resources*

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Borrowing Structure*

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

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

## *Contingent Liabilities*

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

## **PROSPECTS**

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



## 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 8 to 21.

#### Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong 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 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 2004.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

14 September 2004

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

	NOTES	Six months ended 30 June	
		2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
Turnover	2	587,118	334,552
Cost of sales		(354,139)	(195,054)
Gross profit		232,979	139,498
Other operating income	3	34,853	14,887
Selling expenses		(12,369)	(8,620)
Administrative expenses		(102,410)	(54,552)
Other operating expenses		(11,904)	(6,228)
Profit from operations	4	141,149	84,985
Finance costs		(23,949)	(9,528)
Share of results of associates		(351)	–
Share of results of jointly controlled entities		(440)	(31)
Profit before taxation		116,409	75,426
Taxation	5	(4,140)	(1,593)
Profit before minority interests		112,269	73,833
Minority interests		(24,496)	(8,326)
Profit for the period		87,773	65,507
Dividend	6	–	–
Earnings per share	7		
Basic		10.6 cents	8.9 cents
Diluted		10.5 cents	N/A



# CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

XINAO GAS HOLDINGS LIMITED

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		At 30 June 2004 (Unaudited) RMB'000	At 31 December 2003 (Audited) RMB'000
	<i>NOTES</i>		
<b>Non-current assets</b>			
Property, plant and equipment	8	2,325,066	2,029,615
Intangible assets		93,562	78,329
Negative goodwill		(4,582)	(4,120)
Interests in associates		24,544	10,394
Interests in jointly controlled entities		72,662	22,105
Investment in securities		1,000	1,000
		<b>2,512,252</b>	<b>2,137,323</b>
<b>Current assets</b>			
Inventories	9	95,910	72,950
Trade and other receivables	10	288,404	269,216
Amounts due from customers for contract work		170,102	108,284
Amounts due from associates		11,548	3,180
Amounts due from jointly controlled entities		3,620	265
Amounts due from related companies		51,040	19,578
Bank balances and cash		803,538	487,129
		<b>1,424,162</b>	<b>960,602</b>
<b>Current liabilities</b>			
Trade and other payables	11	319,471	308,798
Amounts due to customers for contract work		165,991	120,194
Amount due to a jointly controlled entity		685	750
Amounts due to related companies		79,936	60,332
Taxation payable		2,931	1,321
Bank and other loans – due within one year	12	679,103	541,390
		<b>1,248,117</b>	<b>1,032,785</b>
<b>Net current assets (liabilities)</b>		<b>176,045</b>	<b>(72,183)</b>
<b>Total assets less current liabilities</b>		<b>2,688,297</b>	<b>2,065,140</b>
<b>Non-current liabilities</b>			
Bank and other loans – due after one year	12	587,088	570,536
Deferred taxation		17,058	17,058
		<b>604,146</b>	<b>587,594</b>
		<b>2,084,151</b>	<b>1,477,546</b>
<b>Capital and reserves</b>			
Share capital	13	91,913	78,122
Reserves		1,637,367	1,059,977
		<b>1,729,280</b>	<b>1,138,099</b>
<b>Minority interests</b>		<b>354,871</b>	<b>339,447</b>
		<b>2,084,151</b>	<b>1,477,546</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

## Six months ended 30 June 2003

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

## Six months ended 30 June 2004

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Goodwill reserve RMB'000	Statutory reserves RMB'000	Revaluation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2004	78,122	579,828	1,167	5,590	33,430	40,210	399,752	1,138,099
Profit for the period	-	-	-	-	-	-	87,773	87,773
Issue of shares on placing (Note a)	12,932	483,657	-	-	-	-	-	496,589
Share issue expenses	-	(12,628)	-	-	-	-	-	(12,628)
Issue of shares on exercise of share options (Note b)	859	18,588	-	-	-	-	-	19,447
Transfer to statutory reserves (Note c)	-	-	-	-	11,289	-	(11,289)	-
At 30 June 2004	91,913	1,069,445	1,167	5,590	44,719	40,210	476,236	1,729,280

### Notes:

- On 23 February 2004, 122,000,000 ordinary shares of HK\$0.10 each were issued at HK\$3.84 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.
- On 2 March 2004, 8,100,000 ordinary shares were issued in relation to the exercise of share options. The shares were issued at an exercise price of HK\$2.265 per ordinary share. The market closing price as at that date was HK\$4.15.
- 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 2004

XINAO GAS HOLDINGS LIMITED

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	Six months ended 30 June	
	2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
Net cash inflow from operating activities	130,394	11,499
Net cash outflow from investing activities	(438,639)	(240,797)
Net cash inflow from financing activities	624,654	27,229
Increase (decrease) in cash and cash equivalents	316,409	(202,069)
Cash and cash equivalents at beginning of period	487,129	631,536
Cash and cash equivalents at end of period	<u>803,538</u>	<u>429,467</u>
Balances of cash and cash equivalents represented by: Bank balances and cash	<u>803,538</u>	<u>429,467</u>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

## 1. BASIS OF PREPARATION

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

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

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

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

## 2. SEGMENT INFORMATION

The Group's primary format for reporting segment information is business 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	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover		
Gas connection fees	317,452	190,807
Sales of piped gas	194,788	69,072
Distributions of bottled liquefied petroleum gas	65,082	71,373
Sales of gas appliances	9,796	3,300
	<hr/> 587,118	<hr/> 334,552
Profit from operations		
Gas connection fees	212,100	135,502
Sales of piped gas	50,556	19,657
Distributions of bottled liquefied petroleum gas	215	3,791
Sales of gas appliances	1,379	694
Unallocated other operating income	14,002	6,887
Unallocated expenses:		
– depreciation and amortisation	(26,071)	(21,117)
– corporate expenses	(111,032)	(60,429)
	<hr/> 141,149	<hr/> 84,985

### 3. OTHER OPERATING INCOME

	Six months ended	
	30 June	
	2004	2003
	RMB'000	RMB'000
Other operating income includes:		
Compensation income ( <i>Note a</i> )	17,500	8,000
Incentive subsidies ( <i>Note b</i> )	4,086	1,464
Income from rented premises on operating leases	1,386	903
Interest earned from bank deposits	1,281	1,532
Release of negative goodwill	125	48

*Notes:*

- a. Pursuant to a notice of compensation issued by the relevant government authority in the PRC on 5 January 2004, 長沙新奧燃氣有限公司("Changsha Xinao"), a subsidiary of the Company, is entitled to receive a compensation of RMB21,000,000 per annum from the government authority to subsidise its coal gas operation with effect from September 2003.

In last period, under a memorandum signed between the joint venture partners of 蚌埠新奧燃氣有限公司("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.

- b. The amount represented 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.

### 4. PROFIT FROM OPERATIONS

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

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

## 5. TAXATION

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

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

## 6. DIVIDEND

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

## 7. EARNINGS PER SHARE

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

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

## 8. MOVEMENTS OF PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a total cost of approximately RMB334,705,000 (six months ended 30 June 2003: RMB291,283,000).

No revaluation of land and buildings was carried out during the period. The valuation at 31 December 2003 was carried out by Chesterton Petty Limited, a firm of professionally qualified valuers, on an open market value basis. The directors consider the carrying amount at 30 June 2004 was not significantly different from the fair value on that date.

## 9. INVENTORIES

Included in inventories an amount of RMB7,807,000 (2003: RMB5,825,000) were carried at net realisable value.

## 10. TRADE AND OTHER RECEIVABLES

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

At 30 June 2004 <i>RMB'000</i>	At 31 December 2003 <i>RMB'000</i>
--------------------------------------	--

The following is an aged analysis of trade receivable:

0 – 3 months	102,255	129,244
4 – 6 months	35,648	37,125
7 – 9 months	42,806	11,528
10 – 12 months	9,625	2,813
More than 1 year	–	480
	<hr/>	<hr/>
Trade receivable	190,334	181,190
Prepayments, deposits and other receivables	98,070	88,026
	<hr/>	<hr/>
	<b>288,404</b>	<b>269,216</b>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

## 11. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payable:

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
0 – 3 months	151,732	179,726
4 – 6 months	22,134	14,889
7 – 9 months	35,628	6,882
10 – 12 months	9,483	5,582
More than 1 year	12,853	22,714
	<hr/>	<hr/>
Trade payable	231,830	229,793
Advances received from customers	17,128	11,727
Accrued charges and other payables	70,513	67,278
	<hr/>	<hr/>
	319,471	308,798

## 12. BANK AND OTHER LOANS

During the period, the Group obtained new bank and other loans in the amount of RMB460,445,000 (six months ended 30 June 2003: RMB100,000,000) and made repayments in the amount of RMB306,180,000 (six months ended 30 June 2003: RMB83,033,000). The loans bear interest at market rates. The proceeds were used to finance the capital expenditure and general working capital of the Group. At 30 June 2004, certain assets of the Group with aggregate carrying value of RMB70,555,000 (2003: RMB79,972,000) were pledged as security for loan facilities granted by the banks.



## 13. SHARE CAPITAL

	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2004 and 30 June 2004	<u>3,000,000,000</u>	<u>300,000</u>
Issued and fully paid:		
At 1 January 2004	737,000,000	73,700
Issue of shares on placing	122,000,000	12,200
Issue of shares on exercise of share options	8,100,000	810
	<u>867,100,000</u>	<u>86,710</u>
		RMB'000
Presented in financial statements as:		
At 1 January 2004		78,122
Issue of shares on placing		12,932
Issue of shares on exercise of share options		859
		<u>91,913</u>
At 30 June 2004		<u>91,913</u>

## 14. CAPITAL COMMITMENTS

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
– contracted but not provided for	14,391	25,561
– authorised but not contracted for	14,200	14,200
	<u>14,200</u>	<u>14,200</u>

## 15. INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

During the period, the Group had made investments in an associate, 北海新奧燃氣有限公司, and a jointly controlled entity, 東莞新奧燃氣有限公司, amounted to approximately RMB14,500,000 and RMB51,000,000 respectively. These investments are made in accordance with the capital contribution shared by the Group.

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

## 16. RELATED PARTY TRANSACTIONS

Nature of transaction	Name of related party	Six months ended 30 June	
		2004 RMB'000	2003 RMB'000
Provision of gas connection service by the Group (Note i)	廊坊新城房地產開發有限公司	1,534	–
	安瑞科蚌埠壓縮機有限公司	–	190
	安瑞科氣體機械有限公司	3,600	–
		<b>5,134</b>	<b>190</b>
Sales of gas by the Group (Note ii)	廊坊新奧酒店管理有限公司	269	233
	廊坊新奧物業管理有限公司	4,267	4,943
	新奧集團股份有限公司	76	74
	新奧置業股份有限公司	24	–
	安瑞科蚌埠壓縮機有限公司	44	–
		<b>4,680</b>	<b>5,250</b>
Purchase of liquefied petroleum gas (Note ii)	安吉豐陵液化氣公司*	–	222
	海寧民泰煤氣公司*	621	–
		<b>621</b>	<b>222</b>
Sales of raw materials (Note ii)	安瑞科蚌埠壓縮機有限公司	25	–
Provision of repairs and maintenance services to the Group (Note ii)	安瑞科蚌埠壓縮機有限公司	–	42
Lease of premises by the Group (Note iii)	廊坊新奧物業管理有限公司	165	165
	新奧集團股份有限公司	869	869
		<b>1,034</b>	<b>1,034</b>
Lease of premises to the Group (Note iii)	海寧民泰煤氣公司*	60	20
	海寧萬通燃氣有限公司*	25	21
		<b>85</b>	<b>41</b>

Nature of transaction	Name of related party	Six months ended 30 June	
		2004 RMB'000	2003 RMB'000
Provision of management services to the Group (Note iv)	廊坊新奧物業管理有限公司	691	691
Acquisition of compressed natural gas truck trailers, pressure regulating and gas equipment (Note v)	新奧集團石家莊化工機械股份有限公司	24,630	10,350
	安瑞科蚌埠壓縮機有限公司	2,026	–
	新奧集團國際經濟發展有限公司	605	–
		<u>27,261</u>	<u>10,350</u>
Interest on loan advance (Note vi)	淮安市燃氣總公司*	–	16
	新鄉市燃氣總公司*	–	278
	常州市武進燃氣總公司*	–	116
		<u>–</u>	<u>410</u>
Acquisition of 20% of the registered capital in 諸城新奧燃氣有限公司 (Note vii)	諸城市燃氣熱力總公司*	5,000	–

## Notes:

- (i) The provision of gas connection service 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 and purchases of gas and materials and repair service fee 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) Rental for lease of premises was determined in accordance with the contracts entered into between the Group and the related parties.
- (iv) The provision of management services was determined in accordance with the contract entered into between the Group and the related party.

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

- (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 interest on loans from minority shareholders is charged at prevailing market rates.
- (vii) The consideration was arrived at after arm's length negotiations by reference to the unaudited net asset value of 諸城新奧燃氣有限公司 as at 31 December 2003.

Other than those marked with the asterisk which are minority shareholders of the Group, the remaining related companies are controlled by Mr. Wang Yusuo, the chairman and controlling shareholder of the Company.

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.

The balances with related parties are disclosed in the condensed balance sheet. The following are the aged analysis of trade receivable/payable included in the balances with related companies:

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Amounts due from related companies:		
0 – 3 months	4,582	3,402
4 – 6 months	1,355	10
7 – 9 months	10	–
Trade receivable	5,947	3,412
Others	45,093	16,166
	<u>51,040</u>	<u>19,578</u>
Amounts due to related companies:		
0 – 3 months	1,979	579
4 – 6 months	1,127	366
Trade payable	3,106	945
Others	76,830	59,387
	<u>79,936</u>	<u>60,332</u>

## 17. SUBSEQUENT EVENTS

Subsequent to 30 June 2004, the Group has entered into agreements to invest in the following companies established in the PRC:

Name of company	Capital contributed by the Group	Proportion of nominal value of registered capital held by the Group	Principal activities
<b>Subsidiaries:</b>			
湛江新奥燃气有限公司	US\$51,000,000	60%	Investment in gas pipeline infrastructure and provision of piped gas
温州龙湾新奥燃气有限公司	US\$6,000,000	100%	Investment in gas pipeline infrastructure and provision of piped gas
商丘新奥燃气有限公司	US\$7,000,000	100%	Provision of piped gas
商丘新奥燃气工程有限公司	US\$3,000,000	100%	Investment in gas pipeline infrastructure
<b>Associate:</b>			
东莞新奥莞樟燃气有限公司	RMB11,750,000	47%	Investment in gas pipeline infrastructure and provision of piped gas
<b>Jointly controlled entity:</b>			
鹿泉富新燃气有限公司	US\$788,900	49%	Investment in gas pipeline infrastructure and provision of piped gas

## OTHER INFORMATION

### DISCLOSURE OF INTERESTS

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

As at 30 June 2004, the interest and short positions of the Directors 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	384,486,000 (Note 1)	387,530,000	2,300,000	389,830,000	44.96%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	3,044,000	384,486,000 (Note 1)	387,530,000	2,300,000	389,830,000	44.96%
Mr. Yang Yu	Beneficial owner	-	-	-	3,350,000	3,350,000	0.39%
Mr. Chen Jiacheng	Beneficial owner	-	-	-	2,300,000	2,300,000	0.27%
Mr. Zhao Jinfeng	Beneficial owner	-	-	-	1,775,000	1,775,000	0.20%
Mr. Qiao Limin	Beneficial owner	-	-	-	1,025,000	1,025,000	0.12%
Mr. Jin Yongsheng	Beneficial owner	-	-	-	2,100,000	2,100,000	0.24%
Mr. Yu Jianchao	Beneficial owner	-	-	-	2,100,000	2,100,000	0.24%
Mr. Cheung Yip Sang	Beneficial owner and interest of spouse	-	-	-	2,125,000 (Note 2)	2,125,000	0.25%
Mr. Cheng Chak Ngok	Beneficial owner	-	-	-	600,000	600,000	0.07%

#### Notes:

- The two references to 384,486,000 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.
- Out of 2,125,000 underlying shares, 125,000 underlying shares were granted to Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang. Mr. Cheung Yip Sang is taken to be interested in the underlying shares held by his spouse under the SFO.

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 2004, 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 2004	Number of share options exercised as at 30 June 2004	Number of shares subject to outstanding options as at 30 June 2004	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	–	2,300,000	0.27%
Ms. Zhao	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265	2,300,000 (Note 2)	–	2,300,000	0.27%
Mr. Yang Yu	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265	3,350,000	–	3,350,000	0.39%
Mr. Chen Jiacheng	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265	2,300,000	–	2,300,000	0.27%
Mr. Zhao Jinfeng	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265	2,200,000	(425,000)	1,775,000	0.20%
Mr. Qiao Limin	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265	2,050,000	(1,025,000)	1,025,000	0.12%
Mr. Jin Yongsheng	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265	2,100,000	–	2,100,000	0.24%
Mr. Yu Jianchao	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265	2,100,000	–	2,100,000	0.24%
Mr. Cheung Yip Sang	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265	2,250,000 (Note 3)	(125,000)	2,125,000	0.25%
Mr. Cheng Chak Ngok	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265	600,000	–	600,000	0.07%
Total				19,250,000	1,575,000	17,675,000	

## OTHER INFORMATION

No share option was granted, lapsed or cancelled 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. Out of 2,250,000 underlying shares, 250,000 underlying shares were granted to Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang. Mr. Cheung Yip Sang is taken to be interested in the underlying shares held by his spouse under the SFO.
4. The weighted average closing price per share immediately before the date on which the options were exercised was HK\$4.275.
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 3.73% of the issued share capital of the Company as at 30 June 2004, out of which 19,250,000 share options were granted to the Directors and 13,050,000 share options were granted to the employees of the Group. As at 30 June 2004, 1,575,000 share options granted to Directors and 6,525,000 share options granted to employees were exercised.

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 2004, 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	-	384,486,000 (Note 1)	384,486,000	-	384,486,000	44.34%
Wellington Management Company, LLP	Investment manager	-	71,450,000	71,450,000	-	71,450,000	8.24%
The Capital Group Companies, Inc.	Investment manager	-	46,775,000	46,775,000	-	46,775,000	5.39%

Note:

- 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.

Save as disclosed above, as at 30 June 2004, 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 2004, 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.

## OTHER INFORMATION

### AUDIT COMMITTEE

An audit committee was formed in March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters. Members of the Audit Committee are Mr. Wang Guangtian, Mr. Xu Liang (all of the above are independent non-executive Directors) and Mr. Yu Jianchao (an executive Director). An audit committee meeting was held in September 2004 to review the unaudited interim financial report for the six months ended 30 June 2004. Deloitte Touche Tohmatsu, the Group's external auditors, have carried out a review of the unaudited interim financial report for the six months ended 30 June 2004 in accordance with the Statement of Auditing Standards No.700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. An unmodified review report was issued subsequent to the review.

### CORPORATE GOVERNANCE

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

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

Hong Kong, 14 September 2004



**新奥燃气控股有限公司**  
**XinAo Gas Holdings Limited**

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