



XINAO GAS HOLDINGS LIMITED

新奧燃氣控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2001

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This announcement, for which the directors (the “Directors”) of Xiniao Gas Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- The Group's turnover was approximately RMB240.6 million for the financial year ended 31 December 2001, representing an increase of approximately 96.7% over the previous year.
- Connection fees of approximately RMB184.8 million (representing approximately 76.8% of the Group's turnover) were derived from the provision of new connections to 41,748 households and 113 commercial and industrial sites.
- Gas usage charges of approximately RMB50.6 million (representing approximately 21.0% of the Group's turnover) were derived from the sale of a total of approximately 14.1 million cubic metres of piped gas to residential customers and the sale of approximately 20.5 million cubic metres of piped gas to commercial and industrial customers.
- Net profit increased by approximately 1.1 times to approximately RMB79.3 million for the financial year ended 31 December 2001 when compared to the previous year.
- As at 31 December 2001, the Group had made gas connections to a total of 108,001 households and 355 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of 269,747 cubic metres).
- As at 31 December 2001, the Group owned and operated a total of 464 kilometres of intermediate pipelines and main pipelines and 12 processing stations.
- Earnings per Share increased by approximately 60.7% to approximately RMB14.3 cents per Share for the financial year ended 31 December 2001 when compared with the previous year.

ABOUT XINAO GAS HOLDINGS LIMITED

Xiniao Gas Holdings Limited (the "Company" and together with its subsidiaries, the "Group") is one of the first non state-owned piped gas distributors in the People's Republic of China (the "PRC"). The principal business of the Group is the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped gas in the PRC. Its business activities also consist of the sale of gas appliances and equipment, the production of stored value card gas metres and the provision of repair, maintenance and other services in connection with gas supply.

The Group derives its revenues principally from connection fees receivable on the initial connection of gas and gas usage charges, and to a lesser extent, revenues are also derived from the sale of appliances and the provision of repair, maintenance and other gas related services.

The ordinary shares of HK\$0.10 each in the share capital of the Company ("Shares") were listed on GEM on 10 May 2001.

RESULTS

The Directors are pleased to announce the audited consolidated results of the Group for the financial year ended 31 December 2001 together with the comparative figures for 2000 as follows:

		Year ended 31 December	
	<i>Notes</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Turnover	2	240,560	122,270
Cost of sales		(97,429)	(58,362)
Gross profit		143,131	63,908
Other revenue		7,946	945
Tax refund		5,388	5,180
Selling expenses		(4,446)	(2,041)
Administrative expenses		(40,780)	(9,153)
Other operating expenses		(1,323)	(357)
Profit from operations		109,916	58,482
Interest expense		(10,318)	(8,112)
Profit before taxation		99,598	50,370
Taxation	3	(11,081)	(6,976)
Profit before minority interests		88,517	43,394
Minority interests		(9,250)	(6,018)
Profit for the year		<u>79,267</u>	<u>37,376</u>
Dividends		<u>–</u>	<u>30,529</u>
Earnings per Share (RMB)	4	<u>14.3 cents</u>	<u>8.9 cents</u>

Notes:

1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 July 2000. On 28 March 2001, pursuant to a reorganisation (the “Reorganisation”) to rationalise the group structure in preparation for the listing of the Shares on GEM, the Company became the holding company of the subsidiaries included in the Reorganisation. The Shares were listed on GEM on 10 May 2001.

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Reorganisation completed on 28 March 2001 referred to above. Under this basis, the Company has been treated as the holding company of its subsidiaries acquired through the Reorganisation for the entire financial year presented.

During the financial year ended 31 December 2001, the Company completed the acquisition and establishment of the following subsidiaries:

Acquired:

- 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited*);
- 北京新奧京谷燃氣有限公司 (Beijing Xinao Jinggu Gas Company Limited*); and
- 北京新奧京昌燃氣有限公司 (Beijing Xinao Jingchang Gas Company Limited*).

Established:

- 青島新奧新城燃氣有限公司 (Qingdao Xinao Xincheng Gas Company Limited*);
- 諸城新奧燃氣有限公司 (Zhucheng Xinao Gas Company Limited*);
- 煙台新奧燃氣有限公司 (Yantai Xinao Gas Company Limited*);
- 蚌埠新奧燃氣有限公司 (Bengbu Xinao Gas Company Limited*); and
- 揚州新奧燃氣有限公司 (Yangzhou Xinao Gas Company Limited*).

The results of these subsidiaries are included from their effective dates of acquisition or establishment.

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

2. Turnover and segment information

For management purposes, the Group is currently organised into three divisions, gas connection, sale of gas and sale of gas appliances. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's turnover and contribution by business segment during the year is as follows:

	Year ended 31 December	
	2001 RMB'000	2000 RMB'000
Turnover		
Gas connection fees	184,796	101,282
Sale of gas	50,594	20,517
Sale of gas appliances	5,170	471
	<u>240,560</u>	<u>122,270</u>
Profit from operations		
Gas connection fees	128,076	64,171
Sale of gas	22,199	3,391
Sale of gas appliances	460	164
Unallocated other revenue	13,334	6,125
Unallocated expenses:		
– Depreciation and amortisation (<i>Note</i>)	(7,604)	(3,818)
– Corporate expenses	(46,549)	(11,551)
	<u>109,916</u>	<u>58,482</u>

Note: The amount represents principally depreciation and amortisation of property, plant and equipment related to the gas connection and piped gas operation.

Total depreciation and amortisation of property, plant and equipment for the year amounted to approximately RMB12,887,000 (2000: RMB10,367,000).

All of the Group's business are derived from activities in the PRC, including Hong Kong, in both years.

3. Taxation

Pursuant to the relevant laws and regulations in the PRC, all of 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 year 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.

4. Earnings per Share

The calculation of basic earnings per Share is based on the profit for the financial year ended 31 December 2001 of approximately RMB79,267,000 (2000: RMB37,376,000) and the weighted average number of 553,446,575 Shares (2000: 420,000,000 Shares) in issue during the year.

No diluted earnings per Share is presented because there were no potential dilutive Shares in existence in both years.

5. Reserves

There has been no transfer to or from reserves in both financial year 2001 and 2000.

FINAL DIVIDEND

The Directors have resolved not to recommend the payment of a final dividend by the Company for the financial year ended 31 December 2001.

BUSINESS REVIEW

The Group's turnover for the financial year ended 31 December 2001 was approximately RMB240.6 million, representing an increase of approximately 96.7% from 2000. Such growth was fuelled by an increase in both connection fees through expansion in customer base and gas usage charges due to higher gas consumption. The main contributors to the Group's results for 2001 were 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited*, "Langfang Xinao"), 聊城新奧燃氣有限公司 (Liaocheng Xinao Gas Company Limited*), 北京新奧燃氣有限公司 (Beijing Xinao Gas Company Limited*) and 葫蘆新奧燃氣有限公司 (Huludao Xinao Gas Company Limited*). As the other project companies are still in their initial stages of operations, their contributions to the Group's results were, to a certain extent, lesser. However, the Directors expect to experience increasing contribution from these project companies as they develop.

During the year, the Group's connection fees reached approximately RMB184.8 million, representing an increase of approximately 82.5% over the previous year. Such growth was the result of effective marketing and promotional campaigns undertaken by the project companies which led to the connection of 41,748

new households and 113 new commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of 130,445 cubic metres). As at 31 December 2001, the Group had made gas connections to a total of 108,001 households and 355 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of 269,747 cubic metres). Approximately 68.1% of the connection fees was derived from residential customers and the balance of approximately 31.9% was generated from commercial and industrial customers. The Group recorded an average connection fee per residential household of approximately RMB2,666 for the financial year ended 31 December 2001 (2000: RMB2,485 per household) and an average connection fee for commercial and industrial customers of approximately RMB452 per cubic metre for 2001 (2000: RMB548 per cubic metre).

In relation to gas usage charges, the Group sold approximately 34.6 million cubic metres of gas during the year and generated approximately RMB50.6 million of income, representing a growth of approximately 1.5 times over the previous year. Approximately 41.2% of gas usage charges was derived from residential customers and the balance of approximately 58.8% was generated from commercial and industrial customers. During the year, the Group sold a total of approximately 14.1 million cubic metres of piped gas to residential customers and approximately 20.5 million cubic metres of piped gas to commercial and industrial customers.

Net profit for the financial year ended 31 December 2001 also increased significantly to approximately RMB79.3 million, representing an increase of approximately 1.1 times over the previous year. Earnings per Share was approximately RMB14.3 cents for the year, representing an increase of approximately 60.7% when compared to the earnings per Share in 2000.

The Group built an additional 207 kilometres of intermediate pipelines and main pipelines during the financial year ended 31 December 2001. As at 31 December 2001, the Group had in total approximately 464 kilometres of intermediate pipelines and main pipelines, and 12 processing stations with a combined daily designed capacity of gas supply of approximately 838,000 cubic metres.

In an effort to further develop the Group's business, the Group actively explores and identifies suitable investment opportunities in focussed areas in the PRC. As at the date of this announcement, the Group has obtained relevant approvals to operate piped gas businesses in 16 locations in the PRC with a population coverage of over 3.4 million people compared to four locations in the PRC at the time of listing in May 2001.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Set out below is a comparison between the Group's actual business progress for the period from 23 April 2001 and up to 31 December 2001 and its business objectives and strategies as set out in the prospectus:

	Targets as stated in the prospectus	Actual business progress from 23 April 2001 and up to 31 December 2001
Sales and operations		
• Number of new residential household connections	53,490	39,827
• Additional installed designed daily capacity for commercial and industrial customers (m ³ /day)	72,615	120,833
• Residential gas consumption ('000 m ³)	9,178	10,839
• Commercial/industrial gas consumption ('000 m ³)	14,921	14,755
• Pipelines* to be constructed (km)	488	515
• New processing stations to be constructed	4	2
* <i>Pipelines include the intermediate, main and branch pipelines</i>		

Research and development

• Develop internal capability to manufacture stored value card gas metres	To commence supply in the second half of 2001	Commenced supply in June 2001
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Reasons for material differences between planned business objectives and actual business progress up to 31 December 2001 are set out below.

1. Sales and operations

The shortfall in the number of new residential household connections and the number of new processing stations was due to the unexpected delay in the establishment of 荊州新奧燃氣有限公司 (Jingzhou Xinao Gas Company Limited*, "Jingzhou Xinao"). As at the date hereof, Jingzhou Xinao has not yet been established as the Group is in the process of re-negotiating with its joint venture partner with a view to seeking more favourable terms for the Group. Once the terms are finalised, the Group will proceed to establishing Jingzhou Xinao which is subject only to obtain approval from the relevant foreign trade and economic co-operation department in Jingzhou, the PRC. Due to the foregoing, the Group has allocated its original resources assigned for Jingzhou Xinao to focus on marketing to commercial and industrial customers in other operational locations. As a result of an effective marketing campaign and the commercial and industrial customers' recognition of significant cost savings that can be achieved through the use of piped gas, the Group has successfully achieved its connection targets ahead of schedule by approximately 66.4%.

2. Research and development

The Group has speeded up its development of stored value card gas metres in order to take advantage of the cost savings that can be brought to the Group. Installation of production facilities with an annual capacity of 100,000 metres was completed in June 2001.

Proceeds from issuance of new Shares

From 10 May to 31 December 2001, the Group has utilised approximately HK\$104.7 million in accordance with the Group's business objectives and strategies set out in the prospectus, which includes sales and operations, research and development and others.

	Planned use of proceeds as set out in the prospectus (HK\$'000)	Actual use of proceeds (HK\$'000)
Sales and operations		
• Pipelines to be constructed	78,000	39,088
• New processing stations to be constructed	21,000	34,628
Research and development		
• Develop internal capability to manufacture stored value card gas metres	3,000	–
Others		
• Acquisition of the project companies	31,000	31,000
	<u>133,000</u>	<u>104,716</u>

Reasons for difference between planned usage of proceeds and actual utilisation are set out below.

1. Sales and operations

a. Pipeline construction

Due to effective cost management and improvement in construction work, the Group was able to reduce the overall construction cost for pipelines. The average cost of construction of pipelines was approximately RMB220,000 per kilometre in 2001 compared to an average of approximately RMB325,800 per kilometre in 2000.

b. Processing station construction

The installation of additional equipment and facilities for compressed natural gas in one of the processing stations constructed has resulted in an increase in the overall expenditure for the construction of new processing stations.

2. Research and development

The Group has used HK\$3 million of internal resources to fund the development of stored value card gas metres in order to take advantage of the tax benefit offered by the local tax bureau. The Group intends to use the HK\$3 million originally earmarked for such development as general working capital of the Group to support its ongoing operations and expansion.

PROSPECTS

The Directors and management of the Company are highly positive about the future prospects of the Company. Going forward, the Group will continue to enjoy and benefit from the considerable support from the PRC Government's environmental policies towards the use of natural gas. The Group also expects that, through continuous promotional campaigns, acceptance from consumers over the use natural gas will continue to grow thereby increasing the overall gas penetration rate.

The construction of long distance pipelines for the transportation of natural gas from the reserve-rich western provinces of the PRC to the more affluent provinces in the east referred to as 西氣東輸 (the "West to East Pipelines") undertaken by the PRC Government is progressing smoothly as planned. The overall consumption of natural gas is expected to significantly increase upon its completion in 2004. In order to take advantage of this opportunity, the Group will continue to actively negotiate with local governments at locations along or nearby the West to East Pipelines with a view to developing and operating piped gas business in these areas. In this regard, the Group has successfully obtained exclusive rights to supply piped gas to three locations (namely, Gaoyou and Taixing in Jiangsu Province and Bengbu in Anhui Province) along the West to East Pipelines in 2001. Moreover, as the Beijing Municipal government prepares for the 2008 Olympic Games, the Group's gas projects located in the suburban areas of Beijing Municipality are expected to benefit from the municipal government's initiatives towards cleaner air and demand for new residential property developments is also expected to grow.

Notwithstanding the above, the Group will continue to expand its customer base in its existing operational locations.

All members of the Directors and staff are fully committed to achieving the above objectives. We are confident that the Group would yield satisfactory returns for our shareholders and will continue to provide a safe and reliable gas supply service to our valued customers.

DIRECTORS' INTEREST IN SHARES

As at 31 December 2001, the interests of each of the Directors and their respective associates in the Company and its associated corporations (within the meanings of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the "SDI Ordinance")) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which were taken or deemed to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register required, pursuant to kept therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

	Personal interest	Family interest	Corporate interest	Other	Total
Mr. Wang Yusuo ("Mr. Wang")	–	–	420,000,000 Shares		420,000,000 Shares (<i>Note</i>)
Ms. Zhao Baoju ("Ms. Zhao")	–	–	420,000,000 Shares	–	420,000,000 Shares (<i>Note</i>)

Note: The two references to 420,000,000 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.

Save as disclosed above, as at 31 December 2001, none of the Directors or their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, are required to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme on 24 April 2001 (the "Share Option Scheme"). Up to 31 December 2001, no option has been granted pursuant to the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Share Option Scheme, the Company has granted options on the Company's Shares in favour of certain Directors and employees subsequent to the balance sheet date. Details of the options granted to the Directors are as follows:

	Number of share options granted subsequent to 31 December 2001 (<i>Note</i>)	Number of share options outstanding as at the date of this announcement
Yang Yu	2,400,000	2,400,000
Jin Yongsheng	1,500,000	1,500,000
Zhao Jinfeng	1,500,000	1,500,000
Qiao Limin	1,500,000	1,500,000
Yu Jianchao	1,500,000	1,500,000
	<u>8,400,000</u>	<u>8,400,000</u>

Note: The options were granted on 31 January 2001 at an exercise price of HK\$2.625 each. 50% of the options may be exercised between the period from 1 August 2002 and 30 January 2004 and thereafter, options may be exercised at any time up until 31 January 2012.

Save as disclosed above, at no time during the financial year ended 31 December 2001 was the Company, its subsidiaries or holding company 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

So far as the Directors are aware, as at 31 December 2001, the register of substantial shareholders maintained under Section 16 (1) of the SDI Ordinance showed that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:

Name	Number of Shares held	Approximate percentage of shareholding
Easywin Enterprises Limited	420,000,000 (<i>Note</i>)	66.99%
Mr. Wang	420,000,000 (<i>Note</i>)	66.99%
Ms. Zhao	420,000,000 (<i>Note</i>)	66.99%

Note: The three references to 420,000,000 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.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the financial year ended 31 December 2001.

COMPETING INTEREST

Each of the Directors and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that, none of them had any business or interest in companies that competes or may compete with the business of the Group.

SPONSOR'S INTEREST

As confirmed by the Company's sponsor, N M Rothschild & Sons (Hong Kong) Limited (the "Sponsor"), as at 31 December 2001, neither the Sponsor nor its directors, employees or associates (as referred in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to a sponsor's agreement dated 10 May 2001 between the Company and the Sponsor in connection with services to be rendered by the Sponsor pursuant to Rules 6.01 and 17.81 of the GEM Listing Rules, the Sponsor is entitled to receive fees for acting as the Company's retained sponsor for the period from 10 May 2001 to 31 December 2003.

AUDIT COMMITTEE

The Company established an audit committee on 28 March 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules and with reference to guidance published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group.

BOARD PRACTICES AND PROCEDURES

Since the date of listing of the Shares on GEM on 10 May 2001 and up to 31 December 2001, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

By order of the board
Xinao Gas Holdings Limited
Wang Yusuo
Chairman

In this announcement, amounts stated in Renminbi have been converted into Hong Kong dollars at the rate of HK\$1=RMB1.06.

Hong Kong, 1 March 2002

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* *For identification only*