



XINAO GAS HOLDINGS LIMITED

(新奧燃氣控股有限公司)*

(incorporated in the Cayman Islands with limited liability)

(Website: www.xinaogas.com)

RESULTS ANNOUNCEMENT FOR THE PERIOD ENDED 31 DECEMBER 2002

The Board of Directors (the “Directors”) of Xinao Gas Holdings Limited (“Xinao Gas” or the “Company” and together with its subsidiaries, the “Group”) are pleased to announce the audited consolidated results of the Group for the year ended 31 December 2002 together with the comparative audited figures for the corresponding period in 2001.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 RMB'000	2001 RMB'000
Turnover	2	544,492	240,560
Cost of sales		289,805	(97,429)
Gross profit		254,687	143,131
Other operating income		17,391	13,334
Selling expenses		(11,522)	(4,446)
Administrative expenses		(77,791)	(40,780)
Other operating expenses		(4,504)	(1,323)
Profit from operations	3	178,261	109,916
Professional and other expenses incurred in connection with the listing of the Company's shares on the Main Board		(5,421)	–
Finance costs		(16,782)	(10,318)
Profit before taxation		156,058	99,598
Taxation	4	(12,324)	(11,081)
Profit before minority interests		143,734	88,517
Minority interests		(15,818)	(9,250)
Profit for the year		127,916	79,267
Dividends	5	–	–
Earnings per share	6	18.0 cents	14.3 cents

Notes:

1. Basis of preparation of financial statements

The Company was incorporated in the Cayman Islands on 20 July 2000 as an exempted company under the Companies Law and its shares have been listed on The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 10 May 2001. During the year, the Company withdrew the listing of its shares on GEM. On 3 June 2002, the Company has by way of introduction listed its entire issued share capital on the Main Board of the Stock Exchange. Its ultimate holding company is Easywin Enterprises Limited (“Easywin”), a limited company incorporated in the British Virgin Islands.

Under a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the other companies comprising the Group on 28 March 2001.

In the current year, the Group has adopted, for the first time, the following revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the inclusion of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

In the current year, the Group has adopted SSAP 15 (Revised) "Cash flow statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating and financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

2. Segment information

(a) Business segments

For management purposes, the Group is currently divided into four divisions, gas connection, distributions of bottled liquefied petroleum gas ("LPG"), sales of piped gas and sales 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:

	2002 RMB'000	2001 RMB'000
Turnover		
Gas connection fees	330,915	184,796
Distributions of bottled LPG	130,445	–
Sales of piped gas	73,588	50,594
Sales of gas appliances	9,544	5,170
	<u>544,492</u>	<u>240,560</u>
Profit from operations		
Gas connection fees	243,752	128,076
Distributions of bottled LPG	(1,874)	–
Sales of piped gas	26,578	22,199
Sales of gas appliances	1,476	460
Unallocated other revenue	16,969	13,334
Unallocated expenses:		
– depreciation and amortisation (<i>Note</i>)	(14,823)	(7,604)
– corporate expenses	(93,817)	(46,549)
	<u>178,261</u>	<u>109,916</u>

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

(b) Geographical segment

More than 90 per cent of the Group's assets are located in the PRC, including Hong Kong, as at the balance sheet date.

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

3. Profit from operations

	2002 RMB'000	2001 RMB'000
Profit from operations has been arrived at after charging:		
Amortisation of goodwill included in other operating expenses	906	410
Auditors' remuneration	1,330	947
Depreciation and amortisation of property, plant and equipment	23,853	12,887
Deficit on revaluation of property, plant and equipment	113	–
Loss on disposal of property, plant and equipment	1,196	143
Minimum lease payments under operating leases in respect of land and buildings	1,914	921
Provision for bad and doubtful debts	1,103	2,180
Research and development expenses	1,678	752
Staff costs	47,246	22,611
Less: Amount capitalised under construction in progress	(5,407)	–
	<u>41,839</u>	<u>22,611</u>

4. Taxation

The charge represents enterprise income tax in the PRC for the year.

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 years 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.

5. Dividends

No dividend has been paid or declared by the Company during the year.

6. Earnings per share

The calculation of basic earnings per share for the year is based on the net profit for the year of approximately RMB127,916,000 (2001: RMB79,267,000) and the weighted average of 711,986,301 (2001: 553,446,575) shares in issue during the year.

No diluted earnings per share is presented as the exercise price of options outstanding during the year was higher than the average market price of the Company's shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

Energy Consumption Pattern in the PRC

The PRC is the second largest energy consumer in the world, and its major sources of energy are coal, crude oil and natural gas. Coal accounted for approximately 70% of the PRC's total energy consumption in 2001. The use of coal severely pollutes the environment, while natural gas is among the cleanest, safest, most efficient and economical energy sources. The exploration in 2000 has evidenced that the reserve of natural gas is more abundant than the oil reserve available for extraction by approximately 20 years. The PRC government is actively promoting the use of natural gas as a clean fuel.

The Natural Gas Policy in the PRC

The West-to-East Pipelines project is the established policy of the PRC government for advocating the use of natural gas. It is expected that when the project is completed in 2004, the pipelines will pass through cities in 10 provinces and significantly extend the coverage of provinces or cities that will have access to natural gas. Before the gas source is connected, we will continue to vigorously capture the downstream market of West-to-East Pipelines. The Group supplies compressed natural gas (CNG) or liquefied natural gas (LNG) to some of our customers as a transitional gas source so that once the pipelines are set up, the Group will be able to supply natural gas to customers more efficiently and at lower cost.

At the end of 2002, the Ministry of Construction of the PRC issued the memorandum of “Opinion concerning the speeding up of the development of market economy in the public utilities sector” which primarily required local authorities to open up the market for the construction and operation of public utilities, while allowing foreign investors to set foot in the market, including the city gas industry, by establishing wholly-owned enterprises, equity joint ventures or cooperative joint ventures. As a result, we believe that the city piped natural gas market will enjoy more rapid and healthy development as the city gas industry is becoming more market-oriented. The PRC government is establishing a regulatory framework to cope with reforms towards a market economy for natural gas industry.

At the end of 2002, Xinao Gas was invited to attend the third meeting of the China Britain Natural Gas Working Group (CBNGWG) organised by the British government in London. Discussion in the meeting focused on the construction and operation of infrastructure for city natural gas, safety issues and the market development within the industry. The major objective of the CBNGWG in convening the meeting was to promote the reform of the natural gas industry in the PRC. Attending the meeting provided Xinao Gas with an opportunity to share its experience and discuss topics of common interest with relevant Chinese and British governmental organisations and leaders in the industry. The meeting prepared Xinao Gas to assume an active role in the future reform of the natural gas industry in the PRC. Xinao Gas was the only Chinese private natural gas company being invited to attend the meeting. This distinguished Xinao Gas from other gas companies and demonstrated its leading position in the market.

Business Review

The principal business of the Group is the construction of gas pipelines, the sale of piped gas, the sale of LPG and the sale of gas appliances and equipment.

Construction of Gas Pipelines

Residential Customers

The Group charges connection fees for constructing gas pipelines that connect the processing stations and the residential households. As the Group is the sole piped gas distributor serving the entire city, the residential users include both the newly constructed and existing buildings. Our target is to achieve a high penetration rate of natural gas usage in each project city so as to protect the environment. In the 29 existing project cities, most of the local governments have prescribed the installation of piped natural gas as one of the conditions for approving the construction of new buildings. This policy will continue to assist the Group in raising the penetration rate and stabilising the revenue from connection fees, which are collected from the property developers directly.

During the year, the Group made connections to 102,849 residential households, 95.2% higher than last year. The average connection fee paid by households was RMB2,592, slightly decreased by 2.8% as compared to last year. The primary reason for the decrease of the average connection fee was that we were trying to increase our market share rapidly: We offered special rate to increase the penetration rate and further promote the usage of natural gas. As at the end of 2002, we provided natural gas connections to a total of 210,850 households, which accounted for 7% of the overall connectable population of the Group.

Commercial and Industrial Users

Organisations engaging in industrial production and commercial activities, such as factories, shopping malls, schools, hospitals, hotels and motor vehicle manufactures, etc., continue to be the major commercial and industrial users of the Group. Since the selling price of natural gas is substantially lower than other energy sources, such as electricity, coal gas and LPG, many commercial/industrial users are willing to switch to use natural gas. Unlike LPG, natural gas is more difficult to transport and store, and as a result, users can only get access to natural gas through our pipeline network. This has led to natural monopolisation. During the year, we provided natural gas connections to a total of 147 commercial/industrial users (connected to gas appliance facilities with a designed daily capacity of 95,366 m³). The average connection fee was RMB575 per cubic metres, 27.2% higher than last year. The increase reflects that users are attracted to use natural gas because the price of natural gas is more competitive than other sources of energy, and commercial/industrial users with huge consumption can lower their cost substantially in the long term.

As at the end of 2002, we provided natural gas connections to a total of 502 commercial/industrial users (connected to gas appliance facilities with a designed daily capacity of 365,113 m³).

New Projects

In 2002, the Group continued to take an active role in the exploration of new projects, and the connectable population grew 1.8 times from 3.4 million (approximately 1.13 million households) to 9.5 million (approximately 3.16 million households) by the end of 2002. This can stabilise the Group's future income and consolidate its customer base. New projects secured by the Group in 2002 are as follows:

Hebei Province	Jiangsu Province	Zhejiang Province	Anhui Province	Shandong Province	Henan Province	Liaoning Province
Shijiazhuang (provincial capital)	Yancheng Huaian Haian Xinghua*	Anji Quzhou* Haining*	Chuzhou Luan Bozhou*	Rizhao	Xinxiang	Xingcheng

* *not yet commenced operation*

Shijiazhuang is the first provincial capital project of the Group. This has demonstrated the government's recognition of the Group's management ability, operation safety and financial strength. The securing of the Shijiazhuang project helps the Group to further obtain other large scale projects in the future. Projects in operation increased from 12 in last year to 25 in 2002, paving the way for continuous expansion of the Group.

Sale of Piped Gas

During the year, we sold 19,123,000 m³ and 30,407,000 m³ piped gas to residential households and industrial/commercial customers respectively, representing an increase of 35.7% and 48.4% as compared to last year. The ratio of the sales of gas for industrial/commercial users further increased from 58.8% in last year to 63.8%, laying a solid foundation for the Group's long term revenue.

As the PRC economy will continue to grow rapidly in the coming years, and thereby stimulating the property market and the business of the industrial/commercial customers, the demand for a clean source of energy will grow tremendously. The gas sales volume of industrial/commercial users will be much higher than residential households, and the Group will continue to develop the markets of both residential households and industrial/commercial users so as to have a better revenue structure and a stabilized cash flow.

Advanced Gas Usage Charge Collection System

The Group continues to adopt the prepaid stored-value card system for the new projects. Under the system, all residential customers will receive a stored-value card and are required to prepay for the gas usage charges. This system can totally eliminate the possibility of default payment and save huge administrative expenses, so as to improve the Group's cash flow position.

Sale of LPG

The Group has been principally engaged in the sale of natural gas. As the gross profit margin and the net profit margin of LPG are relatively low, the LPG is only sold in certain cities as a transitional gas source. At present, Bengbu Xinao Gas Company Limited (established in December 2001), Huaian Xinao Gas Company Limited (established in May 2002) and Xinxiang Xinao Gas Company Limited (established in September 2002) are all engaged in the wholesaling and retailing of LPG. Before being taken over by the Group, the principal business of these companies was the sale of LPG. They have all started to construct natural gas pipelines after the Group's acquisition. The Group expects that the sales of LPG of these projects will gradually be replaced by piped natural gas. 43,489 tons of LPG were sold by the Group during 2002.

Sale of Gas Appliances

The Group sells cooking stoves, water heaters, heating stoves and stored-value card meters besides providing gas connections. During the year, the Group sold a total of 31,655 cooking stoves, 4,178 water heaters, and 4,164 heating stoves. Most of the meters produced were used by the Group when making connections.

The Group established a stored-value card meter factory in June 2001, and the production capacity of the factory will reach 200,000 in 2003. The factory mainly supplies the meters installed in residential

households when the Group makes gas connections. Customers can have gas supply when they insert their prepaid stored-value cards into the meters. After the establishment of the production line, the average cost of stored-value card meters dropped by 34%. The connection costs of the Group are substantially lowered when taking into account of more than 100,000 households being connected annually. Besides, among the sales of stored-value card meters in 2002, 2,652 are sold to other gas distributors. The production of stored-value card meters not only reduces costs, but also generates additional income to the Group.

Gross Profit Margin and Net Profit Margin

The Group's overall gross profit margin decreased from 59.5% in 2001 to 46.8% in 2002. The main reason for the decrease is that the Group was engaged in the sale of LPG during the year. Excluding LPG, the overall gross profit margin for connection fees, piped gas sales and sale of gas appliances maintained at 62.0%, representing a slight increase over last year. The increase was the result of stringent control over pipeline construction costs and the adoption of advanced information technology management system by the Group.

The Group's net profit margin decreased from 33.0% in last year to 23.5% this year. The reason for the decrease in net profit margin and gross profit margin is the same: the sale of large amount of LPG during the year. Excluding LPG, the net profit margin maintained at 34.7%.

Operation Management

The Group recognises the importance of safe and efficient operation management in the gas industry. To further enhance our operation management, Liaocheng Xinao Gas Company Limited ("Liaocheng Xinao") and Huludao Xinao Gas Company Limited ("Huludao Xinao") obtained the ISO9001 certifications in 2002. Together with Langfang Xinao Gas Limited ("Langfang Xinao"), 3 project companies of the Group have obtained this certification. Other project companies are complying with the ISO9001 Standards in normal daily work.

By organising customer opinion campaign, we have collected useful opinions on pipeline installation within the buildings, pipeline network construction and after-sales services from the customers.

Advanced Management System

Xinao Gas has maintained excellent safety track record for the past 10 years of operations. This is not achieved by mere chance, but by the Group's stringent administration control and the management's innovative ideas. We have computerized daily operation work, especially the supervision and adjustment of pipeline pressure of gas processing stations and daily maintenance. Safe and efficient operation management has become one of the competitive edges of Xinao Gas in securing new projects.

Because of our outstanding management, Xinao Gas has once again won numerous awards from various international financial magazines. The Company was awarded by *FinanceAsia* as one of the "10 Best Financial Management" in 2002. Since the selection was based on the votes of more than 300 professional investors from international financial institutes, it fully demonstrates the Group's strength in financial management. The Group also received numerous awards again from other renowned financial publishers including "The 200 Best Small Companies" by *Forbes Global*, the "Best Small Companies in the PRC" by *AsiaMoney* and the "Top 500 Chinese Enterprises in the World" by *Yazhou Zhoukan*. Xinao Gas was also awarded the "Top 20 Chinese Enterprises of Revenue Growth" by *Yazhou Zhoukan* in 2002 for the first time.

It was not easy to obtain such achievements but the Group's management will endeavour to main our outstanding performance.

Customer Services

Quality customer service is crucial to the Group for establishing long-term relationship with its customers. The Group is well aware of this and has devoted efforts to maintain quality services of high efficiency and safety standards.

In the year 2002, Liancheng Xinao and Huludao Xinao followed the footsteps of Langfang Xinao to launch the "95158" national 24-hour customer services hotline. Our customers can simply dial 95158 to access the local 24-hour customer services centre and contact us more convenient. In case of emergency,

we promise to arrive at the site and carry out maintenance work within 20 minutes. Our emergency-repair cars are approved by the local governments to be equipped with siren similar to those on the police cars, so that we will be able to arrive at the site early in an emergency.

The Group also conducts regular safety checks on pipeline networks and customers' gas appliances and issues new safety leaflets to our customers during the year. These preventive measures fully embody the principle of "prevention is always better than cure". Therefore, our maintenance fee remains at a low level. During the year, we organised the "Xinao Gas Environmental Quiz" with the aim to increase customers' knowledge on the use of natural gas and to enhance relationship between the Group and the customers.

Human Resources

We believe that quality human resource is the key to the Group's continuous success and future development, so we put great emphasis on recruitment and internal training.

Every year, we recruit undergraduates from universities with renowned gas specialities all over China and professionals in the industry or from overseas according to our development needs. All new staff will be given internal training and may be deployed to different departments to have a better understanding of the Group's culture and operations, so as to provide quality customer service and ensure smooth operation of the Company.

The Group encourages staff to have lifelong learning. We have sponsored some employees to study for MBA in renowned universities or to attend other related technical courses, so as to enhance their competence, technical skills and quality.

The Group also invites university professors to give in-house training courses to ensure our staff is trained academically & technically. Work reviews and assessments are also held regularly to rectify any problems at an early stage. Forums provide another platform for staff to communicate with the management, so that the Group can make appropriate adjustments.

Furthermore, family members of the employees are invited to attend various functions, such as seminars or dinner parties, held by the Group with the aim to strengthen communications and affections between staff and company, and to enhance the sense of belonging of staff towards the Company.

As at 31 December 2002, the Group has 3,238 employees, 5 based in Hong Kong while the others based in the PRC. They are remunerated at market level with benefits such as bonus, retirement benefits and share option scheme.

Financial Resources Review

Liquidity and Financial Resources

As at 31 December 2002, the Group has abundant capital with net cash of RMB164.1 million (2001: 59.3 million) available for future development. Therefore, the net gearing ratio of the Group is zero (2001: zero). In March 2003, the Company placed 110 million shares to international assets management companies and professional investors at HK\$3.05 per share and the net proceeds was HK\$326 million.

Uses of the proceeds are as follows:

Proposed uses on placement	Planned use of proceeds as set out in the placement HK\$'000	Actual use of proceeds HK\$'000	Difference
1. Invested in Huaian Xinao Gas Company Limited (Huaian Xinao), Jiangsu Province	70,000	22,642	47,358
2. Invested in Yancheng Xinao Gas Company Limited (Yancheng Xinao), Jiangsu Province	60,000	7,547	52,453
3. Invested in new gas projects in Anhui Province	90,000	107,566	(17,566)

4.	Invested in the new gas projects in Jiangsu Province	90,000	14,085	75,915
5.	General working capital	16,000	16,000	–
		<u>326,000</u>	<u>167,840</u>	<u>158,160</u>

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

1. The registered capital of Huaian Xinao is RMB30 million (approximately HK\$28 million). The Group owned 80% of the equity interest with a total investment of RMB60 million (approximately HK\$56 million), which is less than HK\$70 million as originally estimated. The difference between the total investment and the registered capital is RMB30 million (approximately HK\$28 million). Since there is no need to invest such amount at this stage, the Group has invested the excess amount in Rizhao Xinao Gas Company Limited in Shandong and Haining Xinao Gas Company Limited in Zhejiang Province as part of their registered capital.
2. The registered capital of Yancheng Xinao is RMB50 million (approximately HK\$47 million). The Group owned 80% of the equity interest with a total investment of RMB120 million (approximately HK\$113 million). The difference between the total investment amount and the registered capital is RMB70 million (approximately HK\$66 million), which needs not to be invested at this stage. However, the Group still has to invest a registered capital of RMB32 million (or approximately HK\$30 million) into Yancheng Xinao later. The excess amount of HK\$22 million has been invested in Xinxiang Xinao Gas Company Limited in Henan Province as part of its registered capital.
3. As the Group has secured more projects in Anhui Province and such projects are larger in scale, the capital actually injected is higher than originally estimated.
4. The Group has invested the excess amount of capital in Quzhou Xinao Gas Limited in Zhejiang Province and Shijiazhuang Xinao Gas Limited in Hebei Province as part of their registered capital.

The proceeds from the listing of the Company on the GEM of the Stock Exchange in May 2001 have been invested as originally planned.

Since the annual interest rate continues to fall and stay at a low level, Xinao Gas, in order to cope with the Group's future development, obtained a three-year, unsecured syndicated loan of US\$30 million in September 2002. It is expected that the loan, when aggregated with the Group's internal resources and bank borrowings, is sufficient to finance the future operational and capital expenditure.

Borrowings Structure

As at 31 December 2002, the Group's total bank borrowings amounted to RMB467,428,000 (2001: RMB123.1 million), including a three-year syndicated loan of US\$30 million (equivalent to RMB248.0 million), which bears interest at a floating rate. The remaining borrowings denominated in Renminbi granted by local banks in the PRC to the project companies as their working capital and operational expenditure. Except for a loan amount of RMB49.3 million that has to be secured by a net asset value of approximately RMB68,018,000 all of the other loans are unsecured with an interest rate from 5.0% to 6.5%. Short-term loans amounted to RMB202.0 million while the remaining are long-term loans falling due after more than 1 year.

As all the operations of the Group are in the PRC, revenues and expenses are mainly denominated in Renminbi. Hence, there is no significant foreign exchange fluctuation exposure except for the three-year syndicated loan of US\$30 million. After evaluating the future movement of foreign exchange, the Group's management considers that there is no need to make any foreign exchange hedge in respect of the syndicated loan of US\$30 million at present, but the Group will continue to pay attention to such risks and make foreign exchange hedge if necessary. Therefore, the Group has not entered into any financial contract or other arrangement to hedge foreign exchange risks.

Contingent Liabilities

At 31 December 2002, the Group had given guarantee to a bank in respect of bank facilities granted to a third party to the extent of RMB39.5 million (2001: nil). An amount of RMB37.5 million was released subsequent to the balance sheet date.

Prospects

Natural gas, being a clean and efficient source of energy, is heavily promoted by the central government, and foreign investors are encouraged to invest in the downstream gas distribution market.

The “West-to-East Pipelines” project extends from Xinjiang to Shanghai, passing through 10 provinces and cities, such as Xinjiang, Gansu and Ningxia. The pipelines are approximately 4,200 kilometers long and with a designed annual capacity of 12 billion m³. It is expected that the pipelines will be operational by 2004. The construction of the pipelines commenced in July 2002 and has been progressing smoothly since then. Recently, the constructions have been extended into Gansu. Starting from 1 March 2003, the construction work in Gansu has been in full swing, and a trial gas supply will begin in October 2003 in provinces like Anhui, Henan and Jiangsu. This favours the development of our project companies within such regions.

As at 27 December 2002, the Ministry of Construction of the PRC issued a memorandum on the “Opinion concerning the speeding up of the development of market economy in the public utilities sector” requiring local authorities to open up the market for the construction and operation of public utilities according to the situation in each place. This further ensures the liberalisation of the city gas market.

Under such favourable environment, we believed that the Group will be able to obtain new projects without much difficulty. It is expected that the Group will still be able to secure 6-8 new quality projects in large and medium cities in 2003. Despite the huge market opportunities, we will remain prudent and conduct detailed feasibility study on each project before making any investment decision, so as to maximise shareholders’ return.

Purchases, Sale or Redemption of Listed Securities

During the year ended 31 December 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

Audit Committee

The Audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the audited annual financial report for the year ended 31 December 2002 (“Annual Report”).

Corporate Governance

The Group has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of the Stock Exchange during the year ended 31 December 2002.

Publication of Detailed Annual Results on The Stock Exchange’s Website

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules of The Stock Exchange will be published on the Stock Exchange’s Website in due course.

By order of the Board
Xiniao Gas Holdings Limited
WANG YUSUO
Chairman

Hong Kong, 8 April 2003

* *For identification only*

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the “Meeting”) of Xiniao Gas Holdings Limited (the “Company”) will be held at Chater Room I, Function Room Level, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Wednesday, 21 May 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31 December 2002;
2. To re-elect retiring directors and to authorise the board of directors to fix the directors’ fees; and

3. To re-appoint the auditors and to authorise the board of directors to fix their remuneration.

By order of the Board
Xinao Gas Holdings Limited
CHENG Chak Ngok
Company Secretary

Hong Kong, 8 April 2003

Principal place of business in Hong Kong:

Xinao Gas Holdings Limited,
Offices Nos. 1-3, 31st Floor,
Tower One, Lippo Centre,
89 Queensway,
Hong Kong

Notes:

1. Every shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a shareholder of the Company.
2. In order to ascertain the identity of the shareholders for attending the forthcoming Meeting of the Company, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the appointed time for holding the Meeting.
3. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting.
4. Completion and delivery of the form of proxy will not preclude a shareholder of the Company from attending and voting at the Meeting if the shareholder of the Company so desires.