Natural gas is a clean and efficient green energy source. As its use is strongly encouraged by the central government, the demand for natural gas is increasing, and the potential for development is enormous.

The leaf vein on the cover stands for Xinao Gas' responsibility in environmental protection, as well as our extending natural gas pipeline network that connects every customer.

Expanding at a fast pace, Xinao Gas is enhancing service quality to become the leading piped natural gas distributor in China.

天然氣是一種清潔高效的綠色能源。在中央政府的大力推廣 下,天然氣市場需求不斷提升,發展空間龐大。

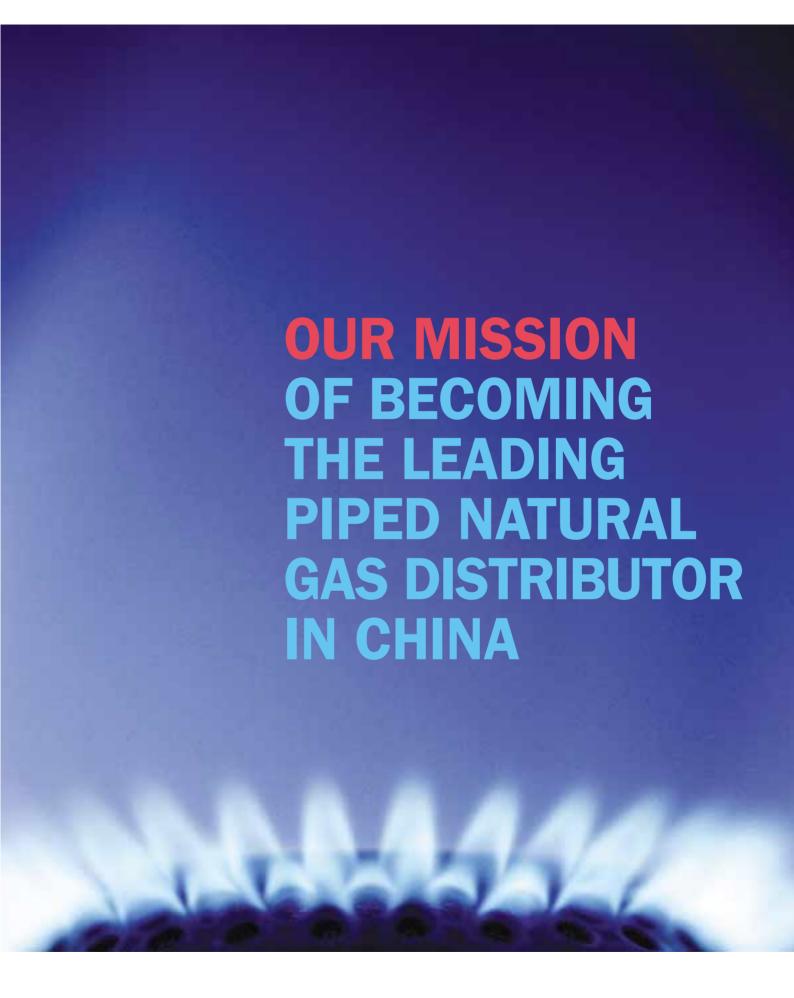
封面上的葉脈構圖,象徵新奧燃氣肩負環保重任,同時亦代表 我們的天然氣管道將不斷伸延,接駁到每個用戶。

新奧燃氣在高速發展之餘,將不斷完善服務質素,致力成為中國最優秀的管道天然氣分銷商。

CONTENTS 目錄

- **04** Corporate Information 公司資料
- 06 Chairman's Statement 主席報告
- **12** Operational Locations 經營地點
- 14 Project Company Operational Data 項目公司營運數據
- 16 Operational and Financial Summary 營運及財務摘要
- 19 Comparison of Four Year Results 四年業績比較
- 24 Management Discussion and Analysis 管理層討論 及分析
- 36 Directors and Senior Management 董事及高級管理 人員

- **40** Directors' Report 董事會報告
- 47 Auditors' Report 核數師報告
- 48 Consolidated Income Statement 綜合收益表
- 49 Consolidated Balance Sheet 綜合資產負債表
- **50** Balance Sheet 資產負債表
- **51** Consolidated Statement of Changes in Equity 綜合權 益變動表
- 52 Consolidated Cash Flow Statement 綜合現金流量表
- 54 Notes to The Financial Statements 財務報表附註
- 90 Notice of Annual General Meeting 股東週年大會通告



XINAO GAS HOLDINGS LIMITED

Xinao Gas Holdings Limited ("Xinao Gas" or 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 meters and the provision of repair, maintenance and other services in connection with gas supply.

The shares of Xinao Gas Holdings Limited were listed formerly on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 10 May 2001 and have been moved to the Main Board of Stock Exchange since 3 June 2002.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Wang Yusuo (Chairman) Yang Yu (Chief Executive Officer) Zhao Jinfeng Qiao Limin Jin Yongsheng

Yu Jianchao Cheung Yip Sang Cheng Chak Ngok

Non-executive Director

Zhao Baoju

Independent non-executive Director

Wang Guangtian Xu Liang

COMPANY SECRETARY

Cheng Chak Ngok, AHKSA, ACCA, ACS, ACIS

AUTHORISED REPRESENTATIVES

Yang Yu Cheng Chak Ngok

MEMBERS OF THE AUDIT COMMITTEE

Wang Guangtian Xu Liang Yu Jianchao

REGISTERED OFFICE

Ugland House P O Box 309 South Church Street George Town Grand Cayman Cayman Islands British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 3101-03, 31st Floor Tower 1 Lippo Centre No. 89 Queensway Hong Kong

HEAD OFFICE IN THE PRC

Huaxiang Road Langfang Economic and Technical Development Zone Langfang City Hebei Province The PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Bank of Butterfield International (Cayman) Ltd Butterfield House Fort Street P O Box 705 George Town Grand Cayman Cayman Islands British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited Rooms 1901-5, 19th Floor, Hopewell Centre 183 Queen's Road East Hong Kong

STOCK EXCHANGE LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

8149 (on the Growth Enterprise Market until 31 May 2002) 2688 (on the Main Board from 3 June 2002)

AUDITORS

Deloitte Touche Tohmatsu Certified Public Accountants 26th Floor, Wing On Centre 111 Connaught Road Central Hong Kong

LEGAL ADVISER

Woo, Kwan, Lee & Lo 27th Floor, Jardine House 1 Connaught Place Central Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China

Langfang Development Zone Branch
Huaxiang Road
Langfang Economic and Technical Development Zone
Langfang City
Hebei Province
The PRC

China Construction Bank

Langfang Anci District Branch 25 Yinhe Main Road Langfang City Hebei Province The PRC

Bank of China (Hong Kong)

Ground Floor 131-133 King's Road North Point Hong Kong

CHAIRMAN'S STATEMENT

THE COMPANY HAS FURTHER INCREASED ITS MARKET SHARE AND BRAND RECOGNITION IN THE PRC PIPED GAS DISTRIBUTION MARKET



Xinao Gas Holdings Limited, formerly listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, has by way of introduction been moved to the Main Board since 3 June 2002. Xinao Gas is the second company that has successfully transferred its listing status from the Growth Enterprise Market to the Main Board. This fully exemplifies the ability and eaming power of the Group and offers an opportunity for major international fund management companies to invest in and share the rapid growth of the PRC enterprises.

RESULTS OF THE YEAR

Building on its previous encouraging results, the Group continued to record a substantial growth. The turnover and profit for the year were RMB544.5 million and RMB127.9 million respectively, representing increases of 1.3 times and 61.4% as compared to last year. Earnings per share increased 25.9 % to RMB18.0 cents.

The Group secured 14 new projects this year, including one in a provincial capital, eight in cities at prefecture level and five in cities at county level, thus accomplishing the target of securing six to eight new projects this year. Four of the new projects secured this year are in Jiangsu Province, three in Zhejiang Province, three in Anhui Province and one in each of the provinces of Shandong, Henan, Liaoning and Hebei. Coverage of connectable population increased 1.8 times to approximately 9.5 million. The new project company in Hebei Province is Shijiazhuang Xinao Gas Company Limited. The Group secured the exclusive right to distribute piped gas in Shijiazhuang, the provincial capital of Hebei, at the end of last year. The Shijiazhuang project is the Group's first project in a provincial capital and the largest one in terms of population. The securing of the Shijiazhuang project reflects the Group's ability in investment, operation and management and also demonstrates that the Group has invested shareholders' capital into projects of medium to large size to take the advantage of economies of scale and to maximise shareholder's return.

As at the end of 2002, the Group made natural gas connections to a total of 210,850 residential households and 502 commercial/industrial customers (connected to a total installed designed daily capacity of 365,113 m³ of gas appliances), representing increases of 102,849 residential households and 147 commercial/industrial customers (with an increase of total installed designed daily capacity of 95,366 m³) when compared to 2001. The sales volume of natural gas for the year also increased by 43.2%.

FINANCIAL POSITION

As at the end of 2002, the Group's cash on hand was RMB631.5 million, and bank and other borrowings were RMB467.4 million while net cash amounted to RMB164.1 million. Together with the credit facilities of RMB700 million granted by local financial institutions to the Group's project companies, the Group has adequate resources for future development. The Company placed 110 million shares at HK\$3.05 per share to international assets management companies and professional investors in March 2002 and secured a 3-year term syndicated loan amounting to US\$30 million in September 2002. These fully demonstrate that the existing performance of Xinao Gas and the prospects of the industry are highly recognised by international investors and banks.



INTERNATIONAL AWARDS

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 institutions, it fully demonstrates the Company's strength in financial management. Besides, some renowned financial publishers gave the Company awards, such as "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, for the second consecutive year. Xinao Gas was also awarded the "Top 20 Chinese Enterprises of Revenue Growth" by Yazhou Zhoukan in 2002 for the first time.

The above awards, voted by investors from international financial institutions, demonstrate that Xinao Gas is highly regarded by the professional investment community for its outstanding and farseeing management, solid financial position and effective operating system, which enable the Group to maintain its leading position in the industry.

CORPORATE MANAGEMENT

After Langfang Xinao Gas Company Limited ("Langfang Xinao"), Huludao Xinao Gas Company Limited ("Huludao Xinao") and Liaocheng Xinao Gas Company Limited ("Liaocheng Xinao") also obtained the ISO9001 certification. As the work of all other project companies is also carried out in compliance with the standards set out under ISO9001, it is evident that the Group is operated under a sound and systematic management.

In 2002, based on past experience, the Group revised the "Gas Management Standards" and extended their practice to all project companies to further improve the management and operation flow of the project companies. In addition, after the national 24-hour customer services hotline "95158" being put into use at the 24 hours call centre in Langfeng Xinao last year, call centres also commenced operation in Huludao Xinao and Liaocheng Xinao this year.

HUMAN RESOURCES

As at the end of 2002, the Group had 3,238 employees, representing an increase of 1.8 times compared to last year. It was mainly because the number of operating project companies increased from 12 to 25, most of them being larger in scale. The Group's actual manpower resources maintained at the same level as last year when taking into account the fact that the connectable population of the Group also increased by 1.8 times during the year.

Throughout the year, the Group looked for suitable candidates by various means. Quite a few of senior executives were recruited, and most of them are middle and senior management staff from the industry with extensive professional knowledge and management experience. The recruitment of such executives helps the Group to cope with its rapid expansion. The Group also provides intensive internal training to build up a pool of high-calibre personnel.

WANG Yusuo

Chairman April 2003

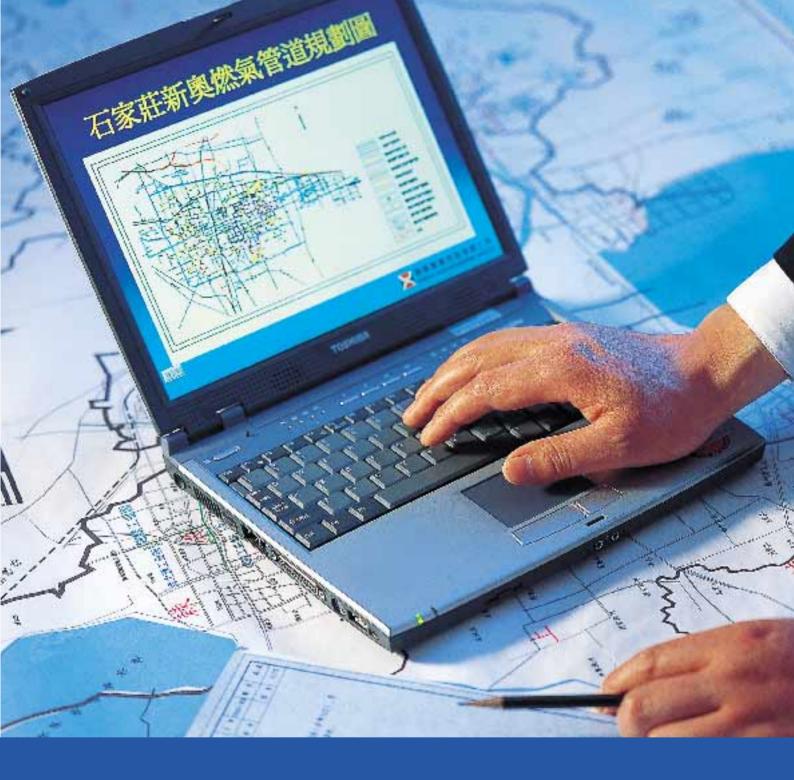
PROSPECTS

The use of natural gas, a clean and efficient source of energy, is strongly promoted by the central government, and foreign investors are encouraged to invest in the downstream gas distribution market.

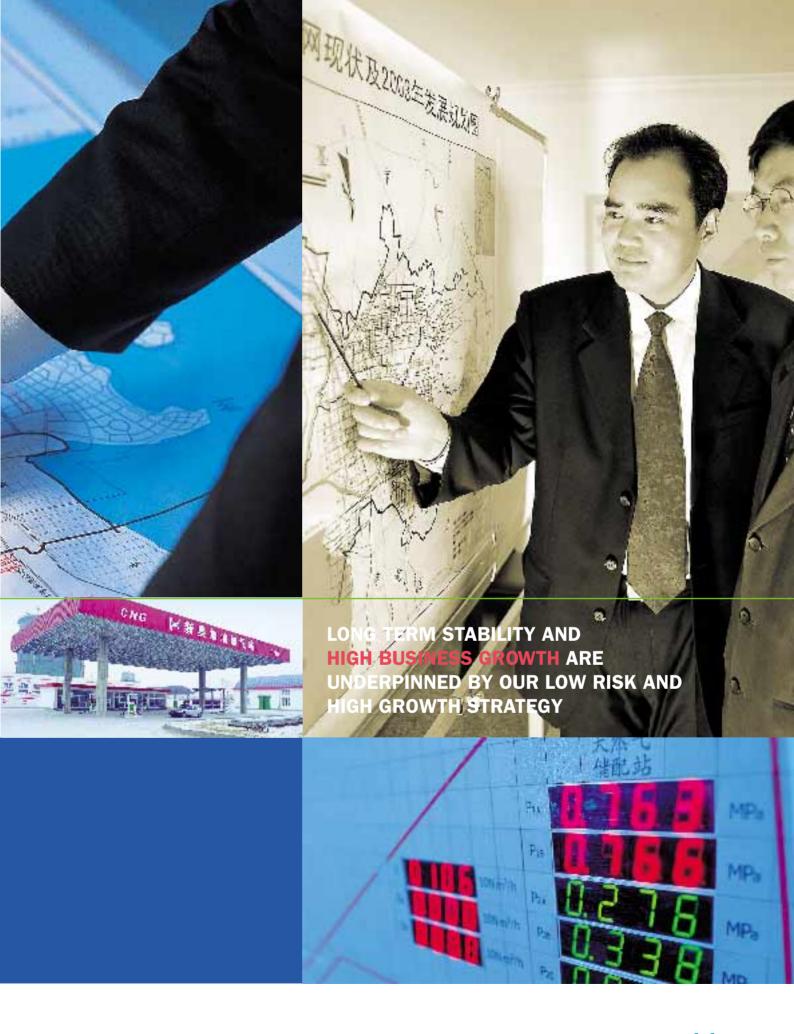
The "West-to-East Pipelines" ("W-E") extends from Xinjiang to Shanghai, passing through cities in 10 provinces, such as Xinjiang, Gansu and Ningxia. The pipelines are approximately 4,200 kilometres long and with a designed annual capacity of 12 billion m³. The pipelines are expected to be operational by 2004. The construction of the pipelines commenced in July 2002 and has been progressing smoothly since then. Recently, the construction has 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 Auhui, Henan and Jiangsu. This favours the development of our project companies within such regions.

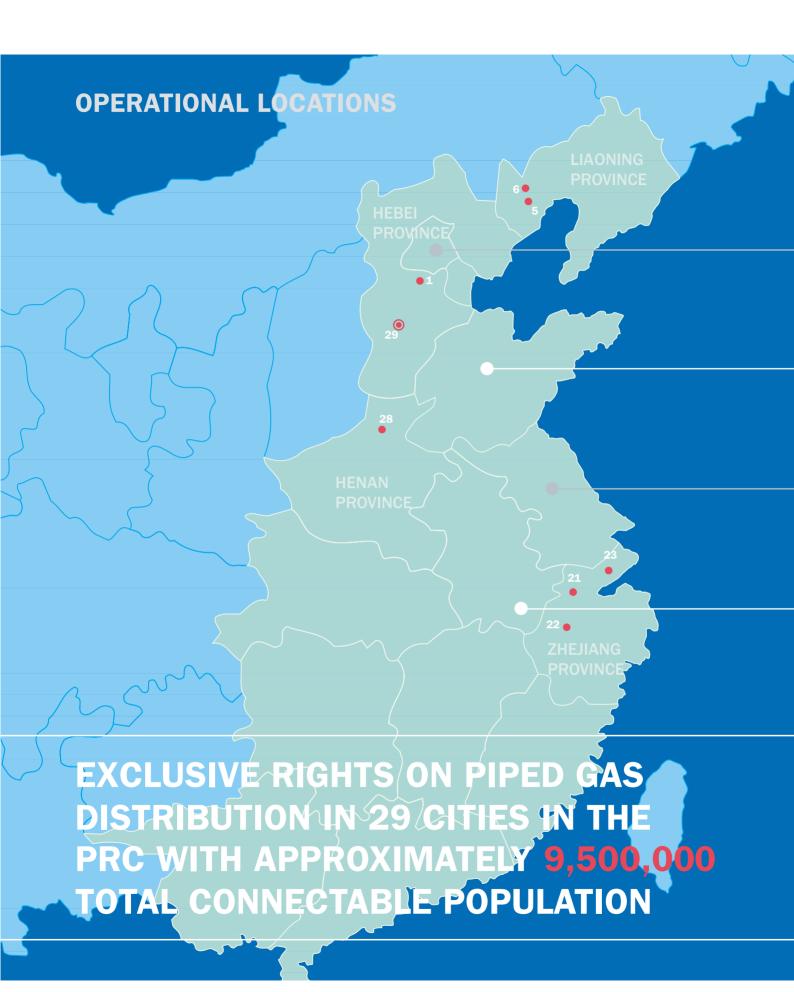
On 27 December 2002, the Ministry of Construction of the PRC issued a memorandum on the "Opinion concerning the speeding up of the development of market economy in the public utilities sector" requiring local authorities to open up the market for the construction and operation of public utilities according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

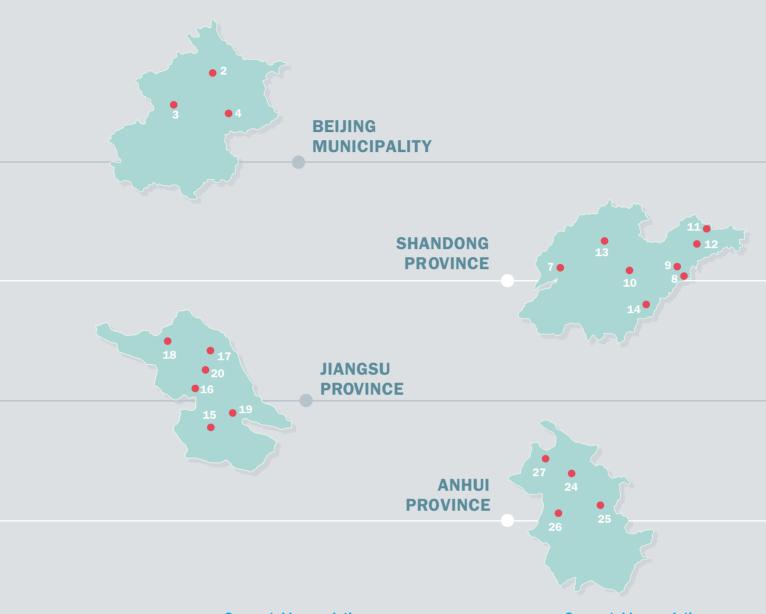
Under such favourable environment, we believe that the Group will be able to obtain new projects without much difficulty. It is expected that the Group will still be able to secure six to eight new quality projects in large and medium cities in 2003. Despite the huge market opportunities, we will remain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



EXPANSION







Operational location	Connectable population as at the end of 2000	Operational location	Connectable population as at the end of 2000
 1 Langfang 2 Miyun 3 Changping 4 Pinggu 5 Huludao 6 Xingcheng 7 Liaocheng 8 Huangdao 9 Chengyang 10 Zhucheng 11 Yantai 12 Laiyang 13 Zouping 14 Rizhao 	270,000 97,000 97,000 97,000 469,000 123,000 314,000 194,000 52,000 168,000 41,000 249,000 113,000 280,000	15 Taixing 16 Gaoyou 17 Yancheng 18 Huaian 19 Haian 20 Xinghua 21 Anji 22 Quzhou 23 Haining 24 Bengbu 25 Chuzhou 26 Luan 27 Bozhou 28 Xinxiang	150,000 149,000 630,000 697,000 175,000 165,000 120,000 235,000 120,000 764,000 280,000 231,000 280,000 754,000
		29 Shijiazhuang	2,100,000

9,414,000

PROJECT COMPANY OPERATIONAL DATA

Operational data as at 31 December 2002

Project Companies	Year of first establishment	Group's interest	Length of existing pipelines (km) ⁽¹⁾	Number of existing processing stations	Combined designed daily capacity of existing processing stations (m³)	Contracted number of gas supply to households ⁽²⁾
Langfang Xinao	1993	100%	201	4	410,000	65,087
Gas Development (5)	2001	100%	0	0	0	2,285
Liaocheng Xinao	1999	90%	103	1	50,000	31,437
Beijing Xinao	1999	95%	41	1	72,000	12,242
Huludao Xinao ⁽⁶⁾	1999	90%	95	1	30,000	40,192
Jingchang Xinao	2000	80%	45	1	72,000	16,211
Jinggu Xinao	2000	70%	44	1	72,000	8,900
Qingdao Xinao	2000	90%	69	1	72,000	16,205
Xincheng Xinao	2001	90%	39	1	30,000	8,757
Zhucheng Xinao	2001	80%	28	1	30,000	7,208
Yantai Xinao	2001	100%	1	1	30,000	0
Bengbu Xinao	2001	70%	25	1	690,000	13,344
Yangzhou Xinao	2001	100%	2	1	72,000	98
Taixing Xinao	2002	90%	3	1	96,000	3,104
Zouping Xinao	2002	100%	10	1	72,000	2,734
Laiyang Xinao	2002	95%	14	1	72,000	3,403
Yancheng Xinao	2002	80%	9	1	30,000	6,371
Huaian Xinao	2002	80%	23	1	300,000	9,918
Haian Xinao	2002	100%	4	1	72,000	1,022
Anji Xinao	2002	90%	3	0	0	1,217
Chuzhou Xinao	2002	90%	13	1	390,000	11,415
Rizhao Xinao	2002	80%	6	1	300,000	3,897
Luan Xinao	2002	100%	8	1	72,000	1,607
Xinxiang Xinao	2002	95%	5	1	144,00	17,746
Quzhou Xinao	2002	90%	0	0	0	0
Haining Xinao	2002	80%	0	0	0	0
Xinghua Xinao	2002	100%	0	0	0	0
Bozhou Xinao	2002	70%	0	0	0	0
Shijiazhuang Xinao	2002	70%	0	0	0	0
Total			791	25	3,178,000	284,400

Notes:

- (1) Existing pipelines consist of intermediate pipelines and main pipelines.
- (2) The difference between contracted number of gas supply and number of gas connections made represents connections to be made.
- (3) Estimated daily gas consumption for households is calculated based on estimated average daily gas consumption of 0.4m³ per connected residential household.

Contracted number of gas supply to commercial/industrial customers (site) ⁽²⁾	Number of gas connections made to households ⁽²⁾	Number of gas connections made to commercial/ industrial customers (site) ⁽²⁾	Estimated daily gas consumption for residential households (m³) ⁽³⁾	Installed designed daily capacity for commercial/ industrial customers (m³)(4)
288	61,246	272	24,498	176,638
10	2,285	10	914	9,131
64	20,701	46	8,280	25,934
39	6,800	28	2,720	76,861
78	31,626	76	12,651	42,081
25	11,253	16	4,501	4,362
12	5,253	12	2,101	4,007
14	12,254	14	4,902	5,258
8	7,581	7	3,032	1,818
4	3,817	1	1,527	602
1	0	1	0	6,000
1	7,075	1	2,830	1,837
0	61	0	24	0
0	2,242	0	897	276
4	1,936	3	774	385
1	2,371	0	948	2,000
4	3,732	4	1,493	5,285
2	7,215	2	2,886	262
0	167	0	67	0
0	34	0	14	0
0	7,344	0	2,938	0
1	2,267	1	907	177
0	1,355	0	542	0
8	12,235	8	4,894	2,200
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
564	210,850	502	84,340	365,114

⁽⁴⁾ Estimated daily gas consumption for commercial/industrial customers is based on 50% of the installed designed daily capacity of the connected commercial/industrial customers' gas appliances (as set out in the respective supply contracts).

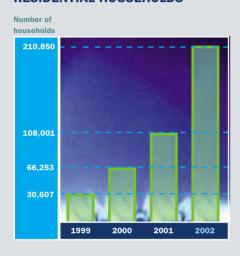
⁽⁵⁾ Since September 2002, Gas Development has replaced Langfang Xinao to construct natural gas pipelines in Langfang city.

The project in Xingcheng is operated by Huludao Xinao as a branch company. (6)

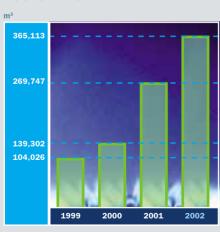
OPERATIONAL AND FINANCIAL SUMMARY

OPERATIONAL

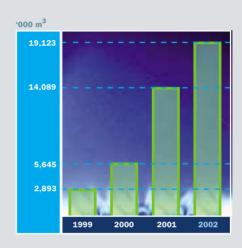
ACCUMULATED NUMBER OF GAS CONNECTIONS MADE TO RESIDENTIAL HOUSEHOLDS



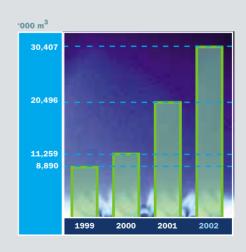
ACCUMULATED INSTALLED DESIGNED DAILY CAPACITY FOR COMMERCIAL/INDUSTRIAL CUSTOMERS



UNITS OF PIPED GAS SOLD TO RESIDENTIAL HOUSEHOLDS

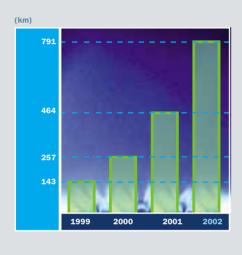


UNITS OF PIPED GAS SOLD TO COMMERCIAL/INDUSTRIAL CUSTOMERS

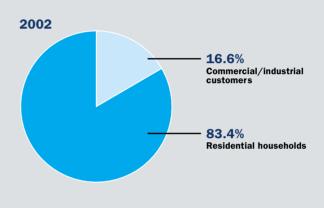


TURNOVER BREAKDOWN BY CUSTOMER

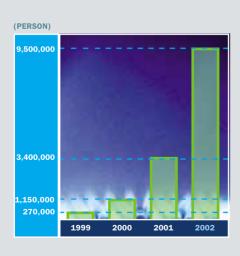
LENGTH OF EXISTING INTERMEDIATE PIPELINES AND MAIN PIPELINES



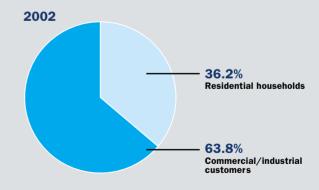
CONNECTION FEES



COVERAGE OF CONNECTABLE POPULATION



SALES OF PIPED GAS



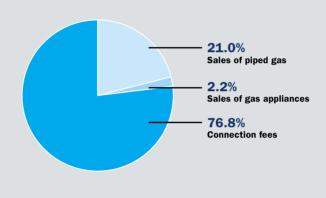
FINANCIAL

TURNOVER BREAKDOWN BY SEGMENT

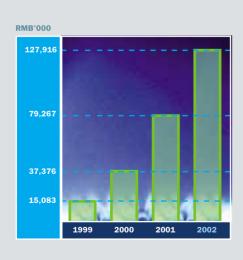
TURNOVER

240,560 122,270 52,923 1999 2000 2001 2002

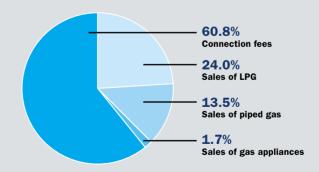
2001



PROFIT FOR THE YEAR



2002



COMPARISON OF FOUR-YEAR RESULTS

	2002	2001	2000	1999	
Highlights (Group)					
Number of connected households	210,850	108,001	66,253	30,607	
Installed designed daily capacity for commercial/					
industrial customers (m³)	365,113	269,747	139,302	104,026	
Units of piped gas sold					
Residential households (m³)	19,123,000	14,089,000	5,645,000	2,893,000	
Commercial/industrial customers (m³)	30,407,000	20,496,000	11,259,000	8,890,000	
Length of existing pipelines (1)(km)	791	464	257	143	
Number of gas processing stations	25	12	7	2	
Combined designed daily capacity of					
existing processing stations (m³)	3,178,000	837,800	561,800	100,000	
Turnover & Profit (000'RMB)					
Turnover	544,492	240,560	122,270	52,923	
Profit before taxation	156,058	99,598	50,370	25,572	
Taxation	(12,324)	(11,081)	(6,976)	(3,836)	
Profit after taxation	143,734	88,517	43,394	21,736	
Minority interests	(15,818)	(9,250)	(6,018)	(6,653)	
Profit for the year	127,916	79,267	37,376	15,083	
B			00.500		
Dividends	0	0	30,529	0	
Assets & Liabilities					
Non-current assets	925,307	415,824	260,999	96,920	
Jointly controlled entity	2,500	0	0	0	
Current assets	842,558	307,481	174,032	161,784	
Current liabilities	(456,841)	(201,195)	(334,507)	(147,667)	
Non-current liabilities	(276,030)	(51,945)	(20,915)	(15,000)	
Minority interests	(98,017)	(17,504)	(9,779)	(38,644)	
ong meneral	(00,021)	(1.,00.)	(0,1.0)	(55,51.)	
Net assets	939,477	452,661	69,830	57,393	
Capital & Reserves					
Share capital	78,122	66,462	0	0	
Reserves	861,355	386,199	69,830	57,393	
Shareholders' funds	939,477	452,661	69,830	57,393	
Earnings per share	18.0 cents	14.3 cents	8.9 cents	3.6 cents	

Length of existing pipelines consist of intermediate pipelines and main pipelines.

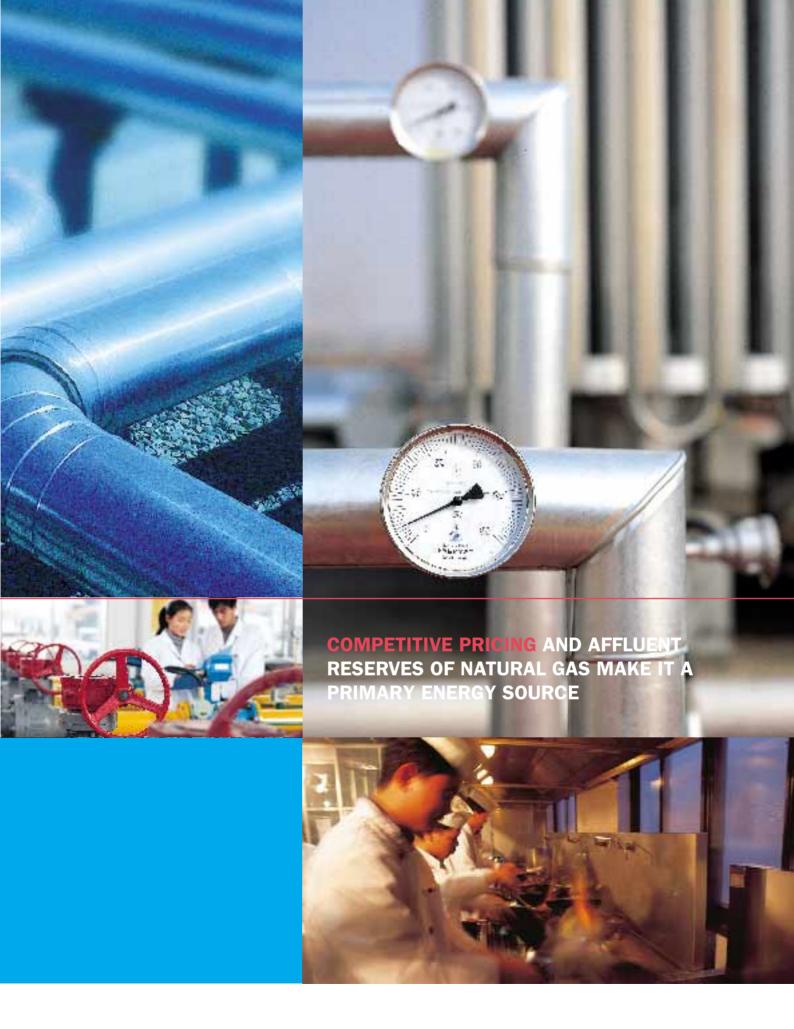


MANAGEMENT





ECONOMICAL



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 W-E 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 actively capture the downstream market of W-E and supply compressed natural gas (CNG) or liquefied natural gas (LNG) to those customers as a transitional gas source, so that once the pipelines are set up, the Group will be able to supply natural gas to them more efficiently and at lower cost.

At the end of 2002, the Ministry of Construction of the PRC issued the memorandum of "Opinion conceming 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 even 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 conference of the China Britain Natural Gas Working Group (CBNGWG) organised by the British government in London. Discussion in the conference 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 conference was to promote the reform of the natural gas industry in the PRC. Attending the conference 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 conference 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 piped natural gas distributor being invited to attend the conference. 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 liquefied petroleum gas ("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 customers 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 rates to increase the penetration rate and further promote the use 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/INDUSTRIAL CUSTOMERS

Organisations engaging in industrial production and commercial activities, such as factories, shopping malls, schools, hospitals, hotels and motor vehicle manufacturers, etc., continue to be the major commercial/ industrial customers 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 customers are willing to switch to use natural gas. Unlike LPG, natural gas is more difficult to transport and store, and as a result, customers 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 customers (connected to a total installed designed daily capacity of 95,366 m³ of gas appliances). The average connection fee was RMB575 per cubic metres, 27.2% higher than last year. The increase reflects that customers are attracted to use natural gas because the price of natural gas is more competitive than other sources of energy, and commercial/industrial customers with huge consumption can lower their cost substantially in the long run.

As at the end of 2002, we provided piped natural gas connections to a total of 502 commercial/industrial customers (connected to a total installed designed daily capacity of 365,113 m³ of gas appliances).

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	Shijiazhuang (provincial capital)
Jiangsu Province	Yancheng, Huaian, Haian, Xinghua*
Zhejiang Province	Anji, Quzhou,* Haining*
Anhui Province	Chuzhou, Luan, Bozhou*
Shandong Province	Rizhao
Henan Province	Xinxiang
Liaoning Province	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 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 19.1 million m³ and 30.4 million m³ piped gas to residential households and industrial/commercial customers respectively, representing increases of 35.7% and 48.4% as compared to last year. The ratio of the sales of gas for industrial/commercial customers 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 fuel will grow tremendously. The gas sales volume for industrial/commercial customers will be much higher than residential households, and the Group will continue to develop the markets of both residential households and industrial/commercial customers so as to have a strong revenue structure and a stabilised 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, thus improving the Group's cash flow position.

SALE OF LPG

The Group has been principally engaged in the sale of piped natural gas. As the gross profit margin and the net profit margin of LPG are relatively low, 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, boilers 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 boilers. 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 to be 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 stored-value card meters sold in 2002, 2,652 were sold to other gas distributors. The production of stored-value card meters not only reduces costs, but also generates additional income for 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 was that the Group was engaged in the

sale of LPG during the year. Excluding LPG, the overall gross profit margin for connection fees, sales of piped gas and sales 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 operation management system by the Group.

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

Analysis of the gross profit margin and the net profit margin in 2002:

	For the year ended 31 December			
	2002	Percentage	2001	Percentage
	(000'RMB)		(000'RMB)	
Turnover	544,492		240,560	
Connections fees	330,915	60.8%	184,796	76.8%
Sales of piped gas	73,588	13.5%	50,594	21.0%
Sales of gas appliances	9,544	1.7%	5,170	2.2%
Sales of LPG	130,445	24.0%	-	-
Gross profit margin (ex-LPG)	62.0%		-	
Gross profit margin	46.8%		59.5%	
Net profit margin (ex-LPG)	34.7%		-	
Net profit margin	23.5%		33.0%	





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 Company 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 computerised 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 for the second consecutive year 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 maintain our outstanding performance.

CUSTOMER SERVICES

Quality customer services are 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.



Quality customer services give our customers high

In the year 2002, Liaocheng 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 conveniently. In case of emergency, we promise to arrive at the site to carry out maintenance work within 20 minutes. Our emergency-repair cars are approved by the local governments to be equipped with sirens 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 conducted regular safety checks on pipeline networks and customers' gas appliances and issued new leaflets of "Gas Usage Safety Standards" to our customers during the year. These preventive measures fully embodied the principle of "prevention is always better than cure". Therefore, our maintenance fees remained 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.



Internal training can further increase the core competitiveness of our staff and make them grow together with the Company

HUMAN RESOURCES

We believe that quality human resources are 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 renowned gas specialities of universities all over China as well as 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 good understanding of the Group's culture and operations, so as to provide quality customer services 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 inhouse training courses to ensure our staff work with practical theory. Work reviews and assessments with staff 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 Group.

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

FINANCIAL RESOURCES REVIEW

LIOUIDITY AND FINANCIAL RESOURCES

As at 31 December 2002, the Group had 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 was zero (2001: zero). In March 2002, 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	Actual use of proceeds	Difference
	HK\$'000	HK\$'000	
Invested in Huaian Xinao Gas Company Limited (Huaian Xinao), Jiangsu Province	70,000	22,642	47,358
Invested in Yancheng Xinao Gas Company Limited (Yancheng Xinao), Jiangsu Province	60,000	7,547	52,453
Invested in the 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	-
	326,000	167,840	158,160

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 Province 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.
- 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 Company Limited in Zhejiang Province and Shijiazhuang Xinao Gas Company 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 and other borrowings amounted to RMB467.4 million (2001: RMB123.1 million), including a three-year syndicated loan of US\$30 million signed on September 2002 (equivalent to RMB248.0 million), which bears interest at a floating rate. The remaining borrowings are 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 RMB73.6 million, 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 were long-term loans falling due after more than 1 year.

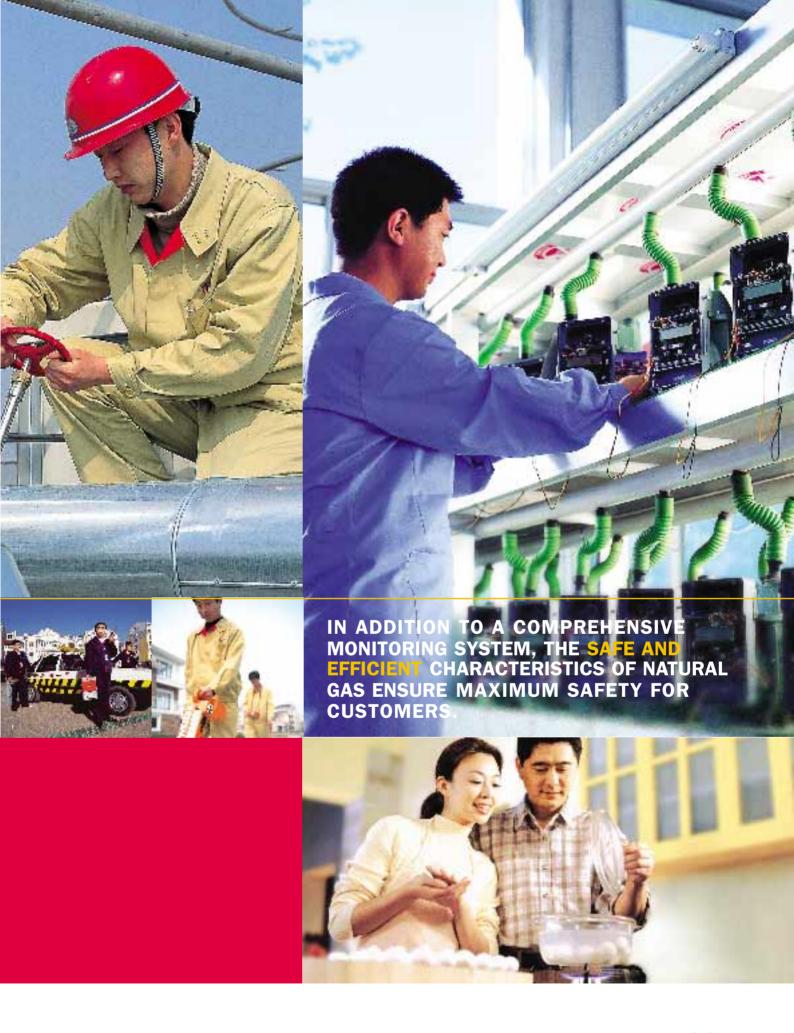
As all the operations of the Group are in the PRC, revenues and expenses are mainly denominated in Renminbi. Hence, there is no significant foreign exchange fluctuation exposure except for the three-year syndicated loan of US\$30 million. After evaluating the future movement of foreign exchange, the 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.

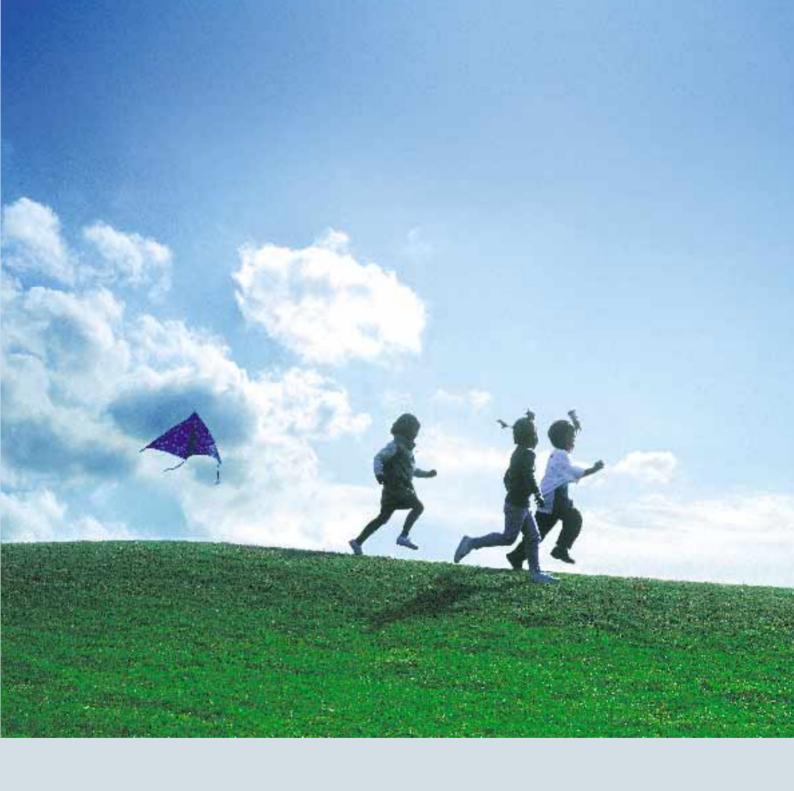
CONTINGENT LIABILITIES

During the year, the Group had given guarantee to a bank in respect of banking facilities granted to a third party to the extent of RMB39.5 million (2001: nil). An amount of RMB37.5 million has been released subsequent to the balance sheet date.

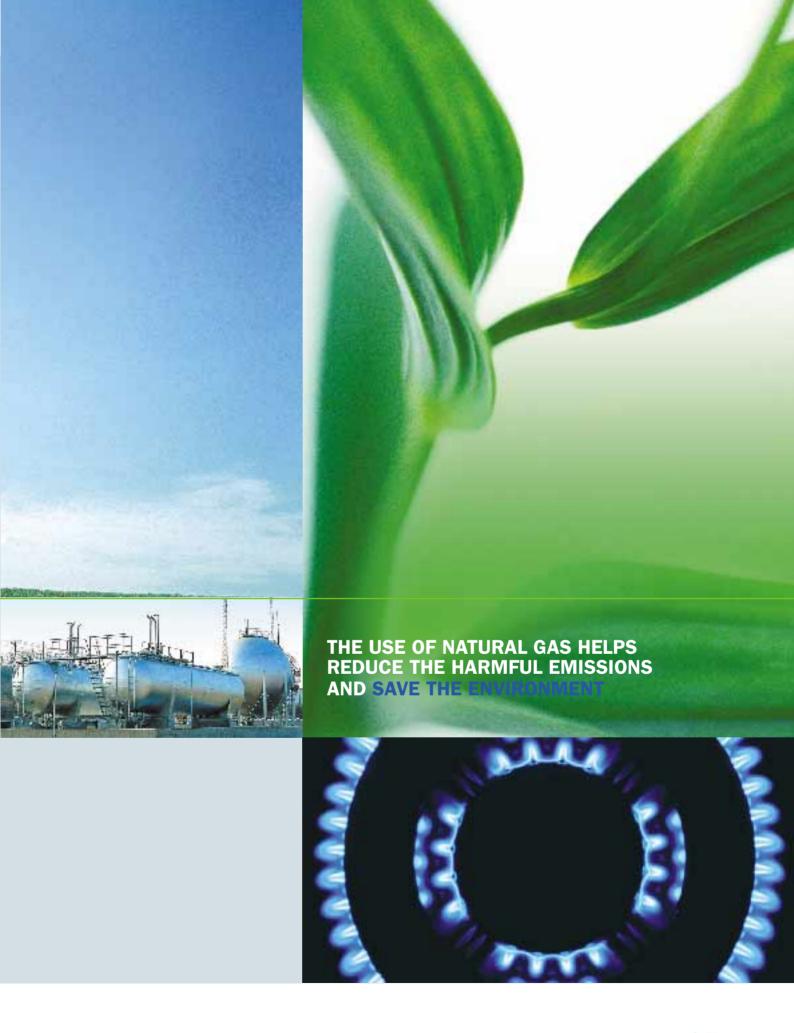


SAFETY





CLEANEST



DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Wang Yusuo, aged 38, is the co-founder, chairman and an executive Director of the Company. He is responsible for overseeing the Group's overall strategic planning. Mr. Wang has over 17 years of experience in the investment in, and the management of, the gas business in the PRC. He holds a master's degree in management from the Tianjin University of Finance and Economics(天津財經學院). Mr. Wang is currently a committee member of the Ninth Chinese People's Political Consultative Conference (第九屆全國人民政治協商會議) and a Vice Chairman of the Tenth Executive Committee of the All-China Federation of Industry and Commerce(全國工商聯第十屆執行委員會). Mr. Wang is the spouse of Ms. Zhao Baoju.



Yang Yu, aged 45, is an executive Director and the chief executive officer of the Company responsible for managing and implementing the Group's investment in the PRC, ensuring the safety of the Group's projects, securing gas supply and further increasing gas investments and markets in the PRC. Mr. Yang joined the Group in 1998 from the China Oil and Gas Pipeline Bureau (中國石油天然氣管道局). He graduated from the Petroleum and Industrial Ministry Pipeline Bureau Technical Institute(石油工業部管道局職工學院)in 1985. He obtained a master's degree in banking from Renmin University of China (中國人民大學)in 1999. Mr. Yang has over 17 years of experience in the PRC gas industry.

Zhao Jinfeng, aged 35, is an executive Director and deputy general manager of the Company. He is responsible for the business development and assisting the chief executive officer in managing and implementing the Group's investment projects in the PRC. He graduated from the Management Institute of the Ministry of Agriculture(農業部鄉鎮企業管理幹部學院). Mr. Zhao joined the Group in 1993 from Langfang City Electrical Company(廊坊市機電公司). Mr. Zhao has over 10 years of experience in the PRC gas industry. Mr. Zhao is Ms. Zhao Baoju's brother.





Qiao Limin, aged 44, is an executive Director and deputy general manager of the Company responsible for the safety and operational matters of the Group. Prior to joining the Group in 1993, he worked at Baotou Education College(包頭市師範專科學校)and was an assistant lecturer at Langfang City Health College(廊坊市衛生學校). He graduated from Baotou Education College in 1984. Mr. Qiao has over ten years of experience in managing gas projects and supervising gas supply operations and safety.

Jin Yongsheng, aged 39, is an executive Director and deputy general manager of the Company responsible for overseeing legal and administrative matters of the Group. He graduated from the Tianjin University of Finance and Economics in 1986, specialising in finance. Prior to joining the Group in 1996, he was an associate professor in Management Institute of the Ministry of Agriculture. Mr. Jin is a qualified practising lawyer in the PRC and has over 10 years of experience in legal practice.





Yu Jianchao, aged 34, is the finance Director of the Company. He joined the Group since January 1998. He graduated from the Hebei number of foreign enterprises including GSK Industry (China) Co.,

Cheung Yip Sang, aged 36, is an executive Director and deputy general manager of the Company. He is responsible for business development and exploring the piped gas market in the PRC. He holds a bachelor's degree in Legal Studies awarded by The Chinese People's Armed Police Force Academy (中國人民武裝警察部隊學院). Prior to joining the Group in February 1998, he was the sales manager of Eastern Guangdong Region of Shantou Jiadan Beer Company Limited (汕頭加丹啤酒有限公司). Mr. Cheung is experienced in marketing and sales.





freight forwarding company. He graduated from Manchester Metropolitan University with a first class honour bachelor's degree in accounting and Chartered Secretaries and Administrators.

NON-EXECUTIVE DIRECTOR

Zhao Baoju, aged 37, is the co-founder and a non-executive Director. She has over 10 years of experience in investing in gas fuel projects in the PRC. She graduated from the Hebei Medical College Nursing School(河北醫學院護士學校)in 1987 and the Chinese Language Faculty of Capital Normal University(首都師範大學)in 1998. Ms. Zhao is the spouse of Mr. Wang Yusuo.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wang Guangtian, aged 39, is an independent non-executive Director appointed by the Company in March 2001. He holds a master's degree in world economics from Hebei University and has over 20 years of experience in financial and administrative management. He is currently the deputy general manager of Hebei Enterprises Limited, which is the window company incorporated in Hong Kong for the Hebei Provincial Government. He is also the general manager of Overseas Way (China) Limited, a company incorporated in Hong Kong.

Xu Liang, aged 62, is an independent non-executive Director appointed by the Company in March 2001. He studied coal gas engineering in Harbin University of Civil Engineering Architecture(哈爾濱建築工程學院). He has worked at the North China Municipal Engineering Design and Research Institute(中國市政工程華北設計研究院)for 37 years and is now their consultant and chief engineer.

SENIOR MANAGEMENT

Chen Jiacheng, aged 40, is the executive general manager of the Group. Mr. Chen joined the Group in January 2002 and is responsible for business administration and management of the Group's gas projects. He holds a bachelor's degree in engineering from Northwest Industrial University(西北工業大學)and a master's degree in business administration from Qinghua University(清華大學). Mr. Chen has over ten years of experience in business administration and management.

Ju Xilin, aged 45, is the general manager for Henan areas. He graduated in 1987 from Mudanjiang City Communist Institute(牡丹江市委黨校) specialising in political science. Prior to joining the Group in January 1996, he worked in state-owned enterprises where he was responsible for the operational management of those enterprises. Mr. Ju has over 20 years of experience in operational management.

Han Jishen, aged 38, is a deputy general manager of the Company responsible for business development. He graduated from Baoding Staff College(保定職工學校)in 1990. Mr. Han joined the Group at the end of 1993 and is responsible for management and operations. He was the general manager of Langfang Xinao and is the general manager of Huludao Xinao. Mr. Han has over 10 years of experience in the gas fuel industry in the PRC.

Liang Zhiwei, aged 40, is the Chief Economist of the Group. He graduated from Guilin Institute of Metallurgy and the Faculty of Resource and Environmental Engineering at the University of Science and Technology Beijing. Prior to joining the Group in 1999, Mr. Liang had worked for No. 1 Bureau of the China Exploration and Engineering Bureau for 15 years.

Wang Dongzhi, aged 33, is the head of the accounting department. Mr. Wang graduated in 1991 with a bachelor's degree in engineering management from Beijing Chemical College (北京化工學院) (now known as Beijing Chemical University (北京化工大學)). Mr. Wang obtained a bachelor's degree in economics in 1996 and is qualified to be a Certified Accountant in the PRC. Before joining the Group in August 2000, Mr. Wang was in charge of the accounting department of a Sino-foreign joint venture company and had extensive experience in transpury and cost control.

annual report 2002 39

DIRECTORS' REPORT

The Directors have pleasure in submitting to shareholders their annual report and the audited financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped and bottled gas in the People's Republic of China (the "PRC").

RESULTS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 48.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

FINANCIAL SUMMARY

Details of the summary of the published financial information of the Group for the past four years are set out on page 19.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB495 million has been incurred in acquiring property, plant and equipment.

During the year, the Group revaluated certain of its properties, resulting in a revaluation surplus amounting to RMB26 million. This has been credited directly to the revaluation reserve.

Details of the movements during the year in property, plant and equipment of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 26 to the financial statements.

RESERVES

Details of movements during the year in the reserves of the Company and the Group are set out in note 28 to the financial statements.

BANK AND OTHER LOANS

Details of bank and other loans of the Group are provided in Note 24 to the financial statements.

CHARITABLE DONATIONS

Charitable donations by the Group for 2002 amounted to HK\$1,000,000 (2001: HK\$ Nil).

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Wang Yusuo (Chairman)

Yang Yu (Chief Executive Officer)

Zhao Jinfeng Oiao Limin Jin Yongsheng Yu Jianchao

(appointed on 10 April 2002) Cheung Yip Sang (appointed on 10 April 2002) Cheng Chak Ngok

Non-executive Director:

Zhao Baoju

Independent non-executive Directors:

Wang Guangtian

Xu Liang

In accordance with Articles 99 and 116 of the Company's Articles of Association, Messrs Yang Yu, Zhao Jinfeng and Yu Jianchao retire by rotation and, being eligible, offer themselves for re-election.

Each of the executive Directors has entered into a service agreement with the Company. Each service agreement, except that of Mr. Cheung Yip Sang and Mr. Cheng Chak Ngok who were appointed during the year and have an initial term commencing 10 April 2002 and expiring on 29 February 2004, is of an initial term of three years commencing 1 March 2001 and expiring on 29 February 2004. Each service agreement shall continue thereafter until terminated by either party giving to the other not less than six months' prior written notice.

The non-executive Director and each of the independent non-executive Directors have been appointed for a term of three years, commencing 1 March 2001 and expiring on 29 February 2004 and thereafter are eligible for re-election.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2002, the interests of each Directors of the Company in the equity securities of the Company as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

	Number of ordinary shares held				
	Personal	Family	Corporate	Other	
Name of Director	interests	interests	interests	interests	Total
Wang Yusuo ("Mr. Wang")	3,044,000	_	430,000,000	_	433,044,000
Zhao Baoju ("Ms. Zhao")	_	3,044,000	430,000,000	_	433,044,000

The above corporate interests of 430,000,000 shares relate to the same block of shares. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao.

Save as disclosed above and disclosed under the heading "Arrangements to purchase shares or debentures" in this report, as at 31 December 2002, the register maintained by the Company pursuant to Section 29 of the SDI Ordinance recorded no other interests of the Directors in the equity or debt securities of the Company and its associated corporations nor any rights to subscribe for equity or debt securities of the Company granted to any Directors or their respective spouse or children under 18 years of age nor the exercise of any such rights.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 27 to the financial statements.

Details of the options granted to certain Directors and employees to subscribe for shares in the Company on 31 January 2002 are as follows:

Name of Director	Number of options granted during the year and balance at 31 December 2002
Yang Yu	2,400,000
Zhao Jinfeng	1,500,000
Qiao Limin	1,500,000
Jin Yongsheng	1,500,000
Yu Jianchao	1,500,000
Cheung Yip Sang	1,500,000
	9,900,000
Employees	8,100,000
	18,000,000

The options were granted at an exercise price of HK\$2.625 each. The closing price of the shares immediately before the date on which the options were granted was HK\$2.725. 50% of the options may be exercised between the period of 1 August 2002 and 31 January 2004, and thereafter, options may be exercised at any time up until 31 January 2012.

No share option was cancelled, lapsed or exercised by the Directors and employees during the year.

As at 31 December 2002, the number of shares in respect of which options had been granted under the 2001 share option scheme was 18,000,000 (2001: Nil), representing 2.4% of the shares of the Company in issue at that date.

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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes disclosed above, at no time during the year was the Company, its ultimate holding company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group has entered into the following transactions and arrangements as described below with persons who are "connected" for the purposes of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited:

On 1 January 2001, Langfang Xinao Gas Company Limited ("Langfang Xinao"), the wholly-owned subsidiary of the Company, signed two contracts for a term of four years with Langfang Xinao Property Management Company Limited ("Langfang Xinao Property Management") (note 1), which provides property management services to Langfang Xinao for two office buildings situated in Langfang City with an annual service fee of RMB1,380,000.

On 1 January 2001, Langfang Xinao leased a staff quarter situated in Langfang City to Langfang Xinao Property Management and another staff quarter also situated in Langfung City to Xinao Group Company Limited (XGCL) (note 1) and signed contracts with them individually for a term of four years with annual rental of RMB329,611 and RMB435,823 respectively.

Langfang Xinao entered into a property leasing agreement and a supplemental property leasing agreement with XGCL in relation to the leasing of the office building situated in Langfang City. The annual rental is RMB1,039,185 plus a reimbursement of management fee of RMB264,000 per annum. The contract term is for four years commencing from 1 January 2001.

During the year, Langfang Xinao provided gas connection services to Langfang Xincheng Property Development Company Limited ("Xincheng Property") (note 1) with the contract sum of RMB72,000.

During the year, the subsidiaries of the Company, including Langfang Xinao, Yantai Xinao Gas Company Limited, Yangzhou Xinao Gas Company Limited, Zouping Xinao Gas Company Limited, Taixing Xinao Gas Company Limited, Laiyang Xinao Gas Company Limited, Liaocheng Xinao Gas Company Limited, Huaian Xinao Gas Company Limited and Haian Xinao Gas Company Limited, acquired compressed natural gas truck trailers, pressure regulating and gas equipment from Xinao Group Shijiazhuang Chemical and Machinery Company Limited ("Xinao Machinery") (note 1) in order to operate compressed natural gas ("CNG"). The total considerations of the contracts are RMB25,980,000.

On 9 May 2002, Zhucheng Xinao Gas Company Limited ("Zhucheng Xinao"), the subsidiary of the Company, entered into the acquisition agreement with Zhucheng City Gas and Heating Corporation, the PRC JV partner of Zhucheng Xinao, to acquire a parcel of land, which has been used as Zhucheng Xinao's office. The consideration is RMB1,560,000.

During the year, Huaian City Gas Corporation ("Huaian City Gas"), Xinxiang City Gas Corporation ("Xinxiang City Gas") and Chuzhou City Infrastructure Construction Company Limited, the PRC JV partners of the Company's subsidiaries Huaian Xinao Gas Company Limited ("Huaian Xinao"), Xinxiang Xinao Gas Company Limited ("Xinxiang Xinao") and Chuzhou Xinao Gas Company Limited ("Chuzhou Xinao") respectively, had loans advanced to Huaian Xinao, Xinxiang Xinao and Chuzhou Xinao with the loan amounts of RMB28,254,000, RMB13,936,000 and RMB1,228,000 respectively. During the year, Huaian Xinao and Xinxiang Xinao paid loan interest of RMB248,000 and RMB165,000 to Huaian City Gas and Xinxiang City Gas respectively. The loans advanced to the subsidiaries were actually the acquisition of liabilities from respective PRC JV partners when forming the new JVs.

Note 1:

Langfang Xinao Property Management, XGCL, Xincheng Property and Xinao Machinery are controlled by Mr. Wang, the Chairman of the Company.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (CONT'D)

In the opinion of the independent non-executive Directors, these transactions were carried out in the ordinary course of business of the Group and on normal commercial terms.

Other than as disclosed above, no other contracts of significance to which the Company, its ultimate holding company or its subsidiaries, was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the following parties had an interest of 10% or more in the Company's issued share capital:

Name	Number of shares held	Approximate percentage of shareholding
Easywin Enterprises Limited	430,000,000 (Note i)	58.34%
Mr. Wang	433,044,000 (Note ii)	58.76%
Ms. Zhao	433,044,000 (Note ii)	58.76%

Notes:

- i. The 430,000,000 shares relate to the same block of shares. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao.
- ii. Other than the 430,000,000 shares as disclosed in (i) above, the remaining 3,044,000 shares are held by Mr. Wang, in which Ms. Zhao has a family interest.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 38 to the financial statements.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share options as set out in note 27 to the financial statements, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2002.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2002, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively accounted for less than 30% of the Group's total turnover and purchases.

CORPORATE GOVERNANCE

The group recognises the importance of corporate governance and shares the view that to maintain a highly transparent management system is critical to our shareholders, employees as well as the industry watchdog. We have established an Operation Management Committee to oversee both our existing operations in macro aspects and potential new investments. Additionally, we also have a Supervisory Committee to monitor our day to day operation.

It is part of our strategy to stay open and responsive to any queries that our shareholders and investors may have from time to time. Besides, our financial and operation management practice are highly regarded by the investment community, and as a result of that, we have received numerous awards from the community. It is also our aim to continue to enhance our management quality.

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited throughout the year.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters. Members of the Audit Committee are Mr. Wang Guangtian, Mr. Xu Liang (all of the above are independent non-executive Directors) and Mr. Yu Jian Chao (an executive Director). The Audit Committee has reviewed the unaudited interim accounts and the audited annual accounts for 2002. Three Audit Committee meetings were held during the financial year.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

WANG Yusuo

Chairman Hong Kong, 8 April 2003

AUDITORS' REPORT

德勤·關黃陳方會計師行

Certified Public Accountants 26/F, Wing On Centre 111 Connaught Road Central Hong Kong

執業會計師 香港中環干諾道中111號 永安中心26樓



TO THE SHAREHOLDERS OF XINAO GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 48 to 89 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Hong Kong, 8 April 2003

CONSOLIDATED INCOME STATEMENT

		2002	2001
	Notes	RMB'000	RMB'000
Turnover	4	544,492	240,560
Cost of sales	7	(289,805)	(97,429)
Gross profit		254,687	143,131
Other operating income	5	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	6	178,261	109,916
Professional and other expenses incurred	· ·	110,202	100,010
in connection with the listing of the			
Company's shares on the Main Board		(5,421)	_
Finance costs	8	(16,782)	(10,318)
D 511 6 1 1		450.050	00.500
Profit before taxation		156,058	99,598
Taxation	9	(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	10	-	_
Earnings per share	11	18.0 cents	14.3 cents

CONSOLIDATED BALANCE SHEET

		2002	2001
	Notes	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	12	905,255	409,889
Goodwill	13	21,808	7,787
Negative goodwill	14	(1,756)	(1,852
Interest in a jointly controlled entity	16	2,500	_
		927,807	415,824
Current assets			
Inventories	17	47,023	31,994
Trade and other receivables	18	98,392	78,122
Amounts due from customers for contract work	19	49,883	11,778
Amounts due from related companies	20	15,724	3,115
Bank balances and cash		631,536	182,472
		842,558	307,481
Current liabilities			
Trade and other payables	21	181,575	93,313
Amounts due to customers for contract work	19	45,636	16,364
Amounts due to related companies	22	18,860	13,660
Tax payable		8,754	2,925
Bank and other loans – due within one year	24	202,016	74,933
		456,841	201,195
Net current assets		385,717	106,286
Total assets less current liabilities		1,313,524	522,110
Non-current liabilities			
Bank and other loans – due after one year	24	265,412	48,215
Deferred taxation	25	10,618	3,730
		276,030	51,945
Minority interests		98,017	17,504
Net assets		939,477	452,661
Capital and reserves			
Share capital	26	78,122	66,462
Reserves	28	861,355	386,199
Shareholders' funds		939,477	452,661

The financial statements on pages 48 to 89 were approved and authorised for issue by the Board of Directors on 8 April 2003 and are signed on its behalf by:

> **Wang Yusuo** Director

Yu Jianchao Director

BALANCE SHEET

		2002	2001
	Notes	RMB'000	RMB'000
Non-current assets			
	4.5	707.700	245.000
Interests in subsidiaries	15	737,726	315,868
Current assets			
Deposits and prepayments		155	4,994
Bank balances and cash		166,084	49,443
		166,239	54,437
Current liabilities			,
Amounts due to subsidiaries	23	7	54,060
Net current assets		166,232	377
Total assets less current liabilities		903,958	316,245
Non-current liabilities			
Bank and other loans – due after one year	24	248,040	_
Net assets		655,918	316,245
Capital and reserves			
Share capital	26	78,122	66,462
Reserves	28	577,796	249,783
Shareholders' funds		655,918	316,245

Wang Yusuo Director

Yu Jianchao Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2002	2001
	RMB'000	RMB'000
Total equity at 1 January	452,661	69,830
Profit for the year	127,916	79,267
Net surplus arising on valuation of land and buildings not		
recognised in the consolidated income statement	16,353	8,725
Total recognised gains	144,269	87,992
		04.074
Capitalisation issue of shares	-	81,374
Issue of shares on placing	355,630	252,333
Share issue expenses	(13,083)	(38,868
Total equity at 31 December	939,477	452,661

CONSOLIDATED CASH FLOW STATEMENT

		2002	2001
	Note	RMB'000	RMB'000
Operating activities			
Profit before taxation		156,058	99,598
Adjustments for:			
Loss on disposal of property, plant and equipment		1,196	143
Deficit on revaluation of property, plant and equipment		113	_
Depreciation of property, plant and equipment		23,853	12,887
Amortisation of goodwill		906	410
Release of negative goodwill		(96)	(96
Interest income		(5,189)	(2,875
Interest expenses		13,851	10,318
Operating each flave before mayoments in walking agrical		100 602	100 205
Operating cash flows before movements in working capital Increase in inventories		190,692	120,385
Increase in trade and other receivables		(6,927)	(12,669
Increase in amounts due from customers for contract work		(16,169)	(20,395) (7,635)
		(38,105)	71,433
(Increase) decrease in amounts due from related companies Decrease in amount due from ultimate holding company		(12,609)	3,492
Increase (decrease) in trade and other payables		52,139	(1,015
Increase in amounts due to customers for contract work		29,272	10,859
Increase (decrease) in amounts due to related companies		5,200	(76,822
Cash generated from operating activities		203,493	87,633
Interest received		5,189	2,875
Bank interest paid		(13,851)	(10,318
PRC enterprise income tax paid		(6,495)	(14,813)
Tax refunded		-	5,180
Net cash from operating activities		188,336	70,557
Investing activities		(442.22.)	
Purchase of property, plant and equipment		(420,361)	(111,154
Acquisition of subsidiaries	29	(6,532)	(31,420)
Acquisition of a business operation		(5,000)	_
Investment in a jointly controlled entity		(2,500)	- (4.4, 000)
Increase in interests in subsidiaries		-	(11,390
Proceeds from disposal of property, plant and equipment		-	2,907
Net cash used in investing activities		(434,393)	(151,057)

	2002	2001
	RMB'000	RMB'000
Financing activities		
Proceeds from shares issued	355,630	252,333
Share issue expenses	(13,083)	(38,868
Contribution from minority shareholders	8,294	1,333
Dividends paid to minority shareholders	-	(2,975
Advances from minority shareholders	43,418	-
New loans raised	423,319	86,977
Repayment of bank loans	(122,457)	(75,194
Net cash from financing activities	695,121	223,606
Net increase in cash and cash equivalents	449,064	143,106
Cash and cash equivalents at beginning of the year	182,472	39,366
Cash and cash equivalents at end of the year	631,536	182,472
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	631,536	182,472

NOTES TO THE FINANCIAL STATEMENTS

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 20 July 2000 as an exempt 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.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 39.

ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

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.

SIGNIFICANT ACCOUNTING POLICIES

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 principal accounting policies adopted are as follows:

Basis of consolidation

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.

Goodwill

Goodwill (negative goodwill) represents the difference between the cost of acquisition and the fair value of the Group's share of the identifiable assets and liabilities of a subsidiary at the effective date of acquisition.

Goodwill arising on acquisition prior to 1 January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisition prior to 1 January 2001 is held in reserves and will be credited to the income statement at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisition on or after 1 January 2001 is capitalised and amortised on a straight line basis over its economic useful life which is not more than 20 years. Negative goodwill arising on acquisition on or after 1 January 2001 is recognised as income on a systematic basis over the remaining weighted average useful lives of the non-monetary assets acquired.

On disposal of a subsidiary, the attributable amount of unamortised goodwill or goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Revenue recognition

Gas connection revenue is recognised when the outcome of a contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable.

Sales of gas and gas appliances are recognised when goods are delivered and title has been passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income from properties under operating leases is recognised on a straight line basis over the lease terms.

Service income is recognised at the time when services are rendered.

Property, plant and equipment

Property, plant and equipment other than land and buildings and construction in progress are stated at cost less depreciation and amortisation and identified impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any valuation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On subsequent sale or retirement of a revalued asset, the attributable surplus is transferred to retained profits.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment other than construction in progress, over their estimated useful lives, and after taking into account their estimated residual value, using the straight line method, as follows:

Land use rights Over the shorter of the term of the lease or the operation period of

the relevant company

Buildings Over the shorter of 30 years or the operation period of the relevant company **Pipelines** Over the shorter of 30 years or the operation period of the relevant company

Machinery and equipment 10 years Motor vehicles 6 years Office equipment 6 years

Construction in progress

Construction in progress represents machinery and pipelines under construction and is stated at cost. Cost comprises direct and indirect costs of acquisition or construction. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Jointly controlled entity

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

The Company's investments in jointly controlled entities are stated at cost, as reduced by any identified impairment loss, as appropriate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the assets. Capitalisation of such borrowing costs ceases when these qualifying assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Inventories

Inventories, including construction materials, gas appliances and gas for sales, consumables and spare parts are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value is based on estimated selling prices in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sale.

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the balance sheet date can be measured reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Expenditure on development is charged to the income statement in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its estimated economic life.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the income statement. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

The Company and its subsidiaries maintain their books and records in Renminbi ("RMB"), the currency of which the majority of transactions are conducted. Transactions denominated in currencies other than RMB are initially record into RMB at the applicable rates of exchange quoted by The People's Bank of China ("PBOC") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are re-translated into RMB at the applicable PBOC rates in effect at the period end dates. Gains and losses arising on exchange are dealt with in the income statement.

Retirement benefit scheme contribution

The retirement benefit scheme contribution charged to the income statement represent the Group's contribution payable to the retirement funds scheme managed by local social security bureau in accordance with the government regulations of the People's Republic of China (the "PRC").

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried a revalued amount under another SSAP in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

4. TURNOVER

	2002	2001
	RMB'000	RMB'000
Turnover comprises the following:		
Gas connection fees	330,915	184,796
Distributions of bottled liquefied petroleum gas	130,445	_
Sales of piped gas	73,588	50,594
Sales of gas appliances	9,544	5,170
	544,492	240,560

5. OTHER OPERATING INCOME

	2002	2001
	RMB'000	RMB'000
Other operating income comprises the following:		
cutor operating mounte comprises the following.		
Incentive subsidies (Note)	5,208	5,388
Interest income	5,189	2,875
Income from rented premises under operating leases	1,805	1,805
Repair and maintenance income	812	_
Management fee income	264	264
Release of negative goodwill	96	96
Sundry income	4,017	2,906
	17,391	13,334

Note:

During the year, Miyun Xinao Gas Company Limited, Langfang Xinao Gas Company Limited and Xinao Langfang Investment Limited, subsidiaries of the Company, applied for a refund of part of the income tax paid as an incentive for the investments in Langfang, the PRC, amounting to RMB5,208,000 (2001: RMB5,388,000). The application was approved by the relevant government authorities. The tax refund was recorded in the year when the relevant approval was obtained.

PROFIT FROM OPERATIONS

	2002	2001
	RMB'000	RMB'000
Profit from operations has been arrived at after charging:		
Amortisation of goodwill included in other operating expenses	906	410
Auditors' remuneration	1,105	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
Allowance 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)	_
	41,839	22,611

REMUNERATION OF DIRECTORS AND EMPLOYEES 7.

	2002	2001
	RMB'000	RMB'000
Directors		
Fees	191	191
Salaries and other benefits	4,698	3,357
Performance related incentive payments	-	235
Retirement benefits scheme contributions	21	15
	4,910	3,798

The emoluments of the directors were within the following bands:

	2002 RMB'000	2001 RMB'000
Nil to HK\$1,000,000 HK\$1,000,001 to HK\$1,500,000	10 1	8 1

The amounts disclosed above include directors' fees of RMB127,000 (2001: RMB127,000) payable to independent nonexecutive directors. None of the directors waived any emoluments during the year.

7. REMUNERATION OF DIRECTORS AND EMPLOYEES (CONT'D)

Employees

Details of the emoluments paid by the Group to the five highest paid individuals (including directors, details of whose emoluments are set out above, and employees) are as follows:

	2002 RMB'000	2001 RMB'000
Salaries and other benefits	3,542	3,303
Performance related incentive payments	_	107
Retirement benefits scheme contributions	21	16
	3,563	3,426
	2002	2001
	Number of	Number of
	individuals	individuals
Emoluments of the five highest paid individuals were within the following band:		
Nil – HK\$1,000,000	4	4
HK\$1,000,001 - HK\$1,500,000	1	1
Number of directors	5	3
Number of employees	_	2
	5	5

8. FINANCE COSTS

	2002 RMB'000	2001 RMB'000
Interest on bank and other loans:		
- wholly repayable within five years	12,291	10,318
- not wholly repayable within five years	1,560	_
Bank charges	13,851 2,931	10,318
Dalik Charges	2,931	_
	16,782	10,318

No interest was capitalised during the year.

9. 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.

10. DIVIDENDS

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

11. 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.

12. PROPERTY, PLANT AND EQUIPMENT

			Machinery				
	Land and		and	Motor	Office	Construction	
	buildings	Pipelines	equipment	vehicles	equipment	in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE GROUP							
COST/VALUATION							
At 1 January 2002	117,824	241,383	12,868	17,536	4,392	49,870	443,873
Acquired on							
acquisition of							
subsidiaries	2,483	-	76	206	176	11,308	14,249
Additions	112,056	119,060	24,809	21,320	5,773	197,846	480,864
Reclassification	10,807	116,656	4,121	700	13	(132,297)	-
Disposals	(120)	(931)	(114)	(210)	(26)	(26)	(1,427
Net surplus on valuation	14,200	-	_	-	_	-	14,200
At 31 December 2002	257,250	476,168	41,760	39,552	10,328	126,701	951,759
Comprising:							
At cost	23,001	476,168	41,760	39,552	10,328	126,701	717,510
At valuation	234,249	-	-	-	-	-	234,249
	257,250	476,168	41,760	39,552	10,328	126,701	951,759
DEPRECIATION AND AMORTISATION							
At 1 January 2002	7,823	19,000	1,423	4,840	898	_	33,984
Acquired on acquisition							
of subsidiaries	47	-	25	92	86	_	250
Provided for the year	4,006	12,943	1,287	4,713	904	_	23,853
Eliminated on disposals	(64)	(70)	(19)	(64)	(14)	_	(231
Eliminated on valuation	(11,352)	-	-	-	-	-	(11,352
At 31 December 2002	460	31,873	2,716	9,581	1,874	-	46,504
NET BOOK VALUES							
At 31 December 2002	256,790	444,295	39,044	29,971	8,454	126,701	905,255

12. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The net book values of properties shown above comprises:

	2002	2001
	RMB'000	RMB'000
Land and buildings in Hong Kong under long leases	22,541	-
Land and buildings in PRC under medium term land use rights	234,249	110,001
	256,790	110,001

The Group revalued all of its land and buildings situated in the PRC as at 31 December 2002, resulting in a revaluation surplus of RMB25,665,000 (2001: RMB12,536,000) which has been credited to the revaluation reserve. The valuation was carried out by Chesterton Petty Limited, a firm of professionally qualified valuers, on open market value basis. At 31 December 2002, the carrying value of these revalued land and buildings amounted to RMB234,249,000 (2001: RMB105,130,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation of RMB196,003,000 (2001: RMB92,984,000) .

The land and buildings situated in Hong Kong with an aggregate carrying value of RMB22,541,000 (2001: Nil) are stated at cost less accumulated depreciation and amortisation. The directors consider carrying value as at 31 December 2002 was not significantly different from its fair value at that date.

13. GOODWILL

	THE GROUP
	RMB'000
GROSS AMOUNT	
At 1 January 2002	8,197
Arising on:	
- acquisition of a subsidiary during the year (note 29)	4,115
 acquisition of a business operation (note a) 	5,000
- acquisition of business (note b)	5,812
At 31 December 2002	23,124
AMORTISATION	
At 1 January 2002	410
Charge for the year	906
At 31 December 2002	1,316
CARRYING VALUE	
At 31 December 2002	21,808
At 31 December 2001	7,787

Notes:

- The amount arose from the acquisition of a business operation of investment in gas pipeline infrastructure and provision of piped (a) gas in Quzhou City, the PRC, for a period of 30 years.
- (b) During the year, the Group entered into joint venture contracts with certain independent third parties in the PRC. Under the terms of contracts, the Group agreed to inject capital into the subsidiaries in cash and the PRC joint venture partners agreed to inject capital into the subsidiaries in the form of assets. Upon completion of the capital injection by both parties, the Group recognised an amount of RMB5,812,000, representing the excess of the Group's initial capital contribution in these subsidiaries over the Group's interest in the fair value of the net assets of these subsidiaries.

The amortisation period adopted for goodwill is 20 years.

14. NEGATIVE GOODWILL

	THE GROUP
	RMB'000
GROSS AMOUNT	
At 1 January 2002 and at 31 December 2002	1,948
RELEASED TO INCOME	
At 1 January 2002	96
Released in the year	96
At 31 December 2002	192
CARRYING AMOUNT	
At 31 December 2002	1,756
At 31 December 2001	1,852

The negative goodwill is released to income on a straight line basis of 20 years, being the weighted average useful lives of non-monetary assets acquired.

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	RMB'000	RMB'000
Unlisted shares, at cost	20,564	20,564
Amounts due from subsidiaries	717,162	295,304
	737,726	315,868

The amounts due from subsidiaries are unsecured, interest free and are not repayable within the next year and accordingly, the amounts are shown as non-current.

Particulars of the principal subsidiaries are set out in note 39.

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
Share of net assets	2,500	_

Details of the Group's jointly controlled entity as at 31 December 2002 is as follows:

			Proportion of nominal	
	Form of business	Place of incorporation/	value of registered capital held	
Name of company	structure	establishment	by the Company	Principal activities
Yancheng Xinao Compressed Natural Gas Company Limited	Incorporated	The PRC	50%	Production and distribution of compressed natural gas

17. INVENTORIES

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
Construction materials	34,382	27,722
Gas appliances	5,366	2,056
Piped gas	1,205	440
Bottled liquefied petroleum gas	3,577	_
Spare parts and consumable	2,493	1,776
	47,023	31,994

All inventories were carried at cost at the balance sheet date.

18. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
The following is an aged analysis of trade receivable:		
0 – 3 months	55,553	35,707
4 – 6 months	7,004	18,412
7 – 9 months	5,377	2,354
10 – 12 months	1,357	1,520
More than 1 year	-	3,993
Trade receivable	69,291	61,986
Amount due from an officer	67	4,456
Prepayments, deposits and other receivables	29,034	11,680
	98,392	78,122

The amount due from an officer represents the amount advanced to Ms. Lam Hiu Ha, the Head of Hong Kong Office, which is unsecured, interest free and repayable on demand. The maximum amount outstanding during the year amounted to RMB6,047,000.

19. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

		THE GROUP	
	2002	2001	
	RMB'000	RMB'000	
Contract costs incurred plus recognised profits less anticipated losses	104,378	225,968	
Less: Progress billings	(100,131)	(230,554)	
	4,247	(4,586)	
Analysed for reporting purposes as:			
Amounts due from customers for contract work	49,883	11,778	
Amounts due to customers for contract work	(45,636)	(16,364)	
	4,247	(4,586)	

20. AMOUNTS DUE FROM RELATED COMPANIES

THE GROUP

Particulars of the amounts due from related companies are as follows:

	Balance	Balance	Maximum amount
	at	at	outstanding
Name of company	31.12.2002	1.1.2002	during the year
	RMB'000	RMB'000	RMB'000
新奧集團石家莊化工機械股份有限公司	5,590	800	13,940
("Xinao Group Shijiazhong Chemical and	,,,,,,,		
Machinery Company Limited")			
新奧物業管理有限公司	4,961	_	4,961
("Langfang Property Management Company Limited")			
北京市昌平市政經濟發展總公司	2,023	_	2,023
("Beijing City Changping Urban Economic			
Development Head Corporation")*			
新奧集團股份有限公司	1,325	_	1,446
("Xinao Group Company Limited")			
萊陽市燃氣公司	860	-	860
("Laiyang City Gas and Heating Corporation")*			
廊坊新奥酒店管理有限公司	544	-	544
("Langfang Xinao Hotel Management Company Limited")			
諸城市燃氣熱力總公司	320	501	646
("Zhucheng City Gas and Heating Corporation")*			
安瑞科蚌埠壓縮機有限公司	56	-	56
("Enric Bengbu Compressor Company Limited")			
廊坊新奥置業有限公司	45	-	45
("Langfang Xinao Property Company Limited")			
北京市密雲化工公司	-	1,445	1,445
("Beijing City Miyun Chemicals Company")*			
廊坊新城房地產開發有限公司	-	369	369
("Langfang Xincheng Property Development			
Company Limited")			
	15,724	3,115	

^{*} Minority shareholders of subsidiaries

All the above related companies are controlled by Mr. Wang Yusuo ("Mr. Wang") except the minority shareholders of subsidiaries as indicated above.

The amounts are unsecured, interest free and subject to normal credit terms.

21. TRADE AND OTHER PAYABLES

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
The following is an aged analysis of trade payable:		
0 – 3 months	90,007	36,299
4 – 6 months	13,078	8,120
7 – 9 months	8,943	5,306
10 – 12 months	3,670	3,043
More than 1 year	16,968	9,155
Trade payable	132,666	61,923
Advances received from customers	7,611	3,673
Accrued charges and other payables	41,298	27,717
	181,575	93,313

22. AMOUNTS DUE TO RELATED COMPANIES

THE GROUP

Particulars of the amounts due to related companies are as follows:

Name of company	2002	2001
	RMB'000	RMB'000
上海岩鑫實業投資有限公司	11,650	-
(Shanghai Yanxin Enterprise Investment Company Limited)*		
蚌埠市城市建設投資經營有限公司	6,218	_
(Bengbu City Construction Investment Company Limited)*		
安吉丰陵液化氣公司	724	_
(Anji Fengling LPG Company)*		
Xinao Group Shijiazhong Chemical and Machinery Company Limited	160	583
聊城市熱力公司	84	_
(Liaocheng City Gas and Heating Corporation)*		
Enric Bengbu Compressor Company Limited	22	_
平谷縣液化石油氣公司	2	_
(Pinggu Country LPG Company)*		
廊坊市天然氣有限公司	_	10,000
(Langfang City Natural Gas Company Limited)		
Beijing City Changping Urban Economic Development Head Corporation*	-	3,077
	18,860	13,660

^{*} Minority shareholders of subsidiaries

All the above related companies are controlled by Mr. Wang except the minority shareholders of subsidiaries as indicated above.

The amounts are unsecured, interest free and subject to normal credit terms.

23. AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

The amounts are unsecured, interest free and repayable on demand.

annual report 2002 71

24. BANK AND OTHER LOANS

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Considerable and	40.044	40.727		
Secured bank loans	49,344	48,737	-	_
Unsecured bank loans	374,666	74,411	248,040	_
	424,010	123,148	248,040	
Unacquired leans from minority shareholders	1	123,140	246,040	_
Unsecured loans from minority shareholders	43,418	_	_	_
	467,428	123,148	248,040	_
	,	,	,	
The bank and other loans are repayable:				
Within one year	202,016	74,933	_	_
Between one to two years	4,615	37,798	_	_
Between two to five years	252,765	10,417	248,040	_
More than five years	8,032	_	-	_
	467,428	123,148	248,040	_
Less: Amount due within one year				
shown under current liabilities	(202,016)	(74,933)	-	_
		40.04-		
Amount due after one year	265,412	48,215	248,040	-

Apart from an interest free advances from a minority shareholder of RMB1,228,000 (2001: Nil) which is repayable between one to two years, the remaining balance of bank and other loans bear interest at prevailing market rates.

25. DEFERRED TAXATION

At the balance sheet date, the Group had deferred taxation amounting to RMB10,618,000 (2001: RMB3,730,000) arising on valuation of properties. The amount transferred from revaluation reserve during the year amounted to RMB6,888,000 (2001: RMB3,730,000).

There was no other significant unprovided deferred taxation during the year or at the balance sheet date.

26. SHARE CAPITAL

	2002	2001 ber of shares	2002 HK\$'000	2001 HK\$'000
	- Ivaiii	ber of shares	TINQ 000	ΤΙΛΦΟΟΟ
Shares of HK\$0.10 each				
Authorised:				
At beginning of the year	3,000,000,000	1,000,000	300,000	100
Increase on 28 March 2001 (note a)	_	2,999,000,000	_	299,900
At end of the year	3,000,000,000	3,000,000,000	300,000	300,000
Issued and fully paid:				
At beginning of the year	627,000,000	10	62,700	_
Share exchange upon reorganisation (note a)	-	193,999,990	_	19,400
Capitalisation issue (note b)	-	226,000,000	_	22,600
Issue of shares on placing (note c)	110,000,000	207,000,000	11,000	20,700
At end of the year	737,000,000	627,000,000	73,700	62,700
			RMB'000	RMB'000
Presented in financial statements as:				
At beginning of the year			66,462	_
Share exchange upon reorganisation (note a)			_	20,564
Capitalisation issue (note b)			_	23,956
Issue of shares on placing (note c)			11,660	21,942
At end of the year			78,122	66,462

Notes:

- (a) On 28 March 2001, the Company increased its authorised share capital from HK\$100,000 to HK\$300,000,000, by the creation of an additional 2,999,000,000 shares and allotted and issued in aggregate 193,999,990 shares to Easywin credited as fully paid at HK\$19,399,999 in total for the acquisition by the Company of the entire issued share capital of Xinao Gas Investment Group Limited from Easywin.
- (b) On 9 May 2001, 226,000,000 shares were issued and credited as fully paid to Easywin by capitalising RMB81,374,000 (equivalent to approximately HK\$76,768,000) due from the Group to Easywin.
- (c) On 9 May 2001 and 22 May 2001, 180,000,000 and 27,000,000 shares of HK\$0.10 each were issued at HK\$1.15 per share through an initial public offering by way of placing and subsequent exercise of the over-allotment option under the initial public offering. On 25 March 2002, 110,000,000 shares of HK\$0.10 each were issued at HK\$3.05 per share by way of placing. These shares rank pari passu with the existing shares in all respects. The net proceeds from shares issued were used as general working capital and expansion of the Group.

27. SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "2001 Scheme") pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 24 April 2001. In connection with the listing of shares on the Main Board of the Stock Exchange, the Company has adopted a share option scheme (the "2002 Scheme") and terminated the 2001 Scheme pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002. Upon termination of the 2001 Scheme, no further options may be offered but in all other respects the provisions of the 2001 Scheme shall remain in force. Any outstanding options under the 2001 Scheme shall continue to be subject to the provisions of the 2001 Scheme and the adoption of the 2002 Scheme shall remain in force for a period of 10 years commencing 21 May 2002 after which period no further options may be granted thereunder.

The purpose of the 2002 Scheme is to provide incentives for participates to perform their best in achieving the goals of the Group and allow them to enjoy the results of the Company attained through their efforts and contribution. Pursuant to the 2002 Scheme, the Directors may, at its absolute discretion, invite any employee or executive director of any member of the Group, or any employee, partner or director of any business consultant, joint venture partner, financial adviser and legal adviser of and to any member of the Group, to take up options at HK\$1 per option to subscribe for shares at an exercise price equal to at least the highest of (a) the closing price of the shares on the Stock Exchange on the date of grant; (b) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (c) the nominal value of a Share.

The maximum number of shares in respect of which options may be granted under both 2001 and 2002 Schemes may not exceed 30% of the issued share capital of the Company from time to time. Unless approved by shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

On 31 January 2002, the Directors had granted options to subscribe for an aggregate of 18,000,000 shares under the 2001 Scheme, out of which 9,900,000 share options were granted to the Directors and 8,100,000 share options were granted to the employees of the Group. As at 31 December 2002, all of the outstanding options under the 2001 Scheme remained outstanding. Up to 31 December 2002, no option has been granted pursuant to the 2002 Scheme.

The options were granted at an exercise price of HK\$2.625 each. The closing price of the shares immediately before the date on which the options were granted was HK\$2.725. 50% of the options may be exercised between the period from 1 August 2002 and 31 January 2004 and thereafter, options may be exercised at any time up until 31 January 2012.

No share option was cancelled, lapsed or exercised by the directors and employees during the year.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

28. RESERVES

	THE	GROUP	THE CO	OMPANY
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
SHARE PREMIUM				
At beginning of the year	248,941	_	248,941	_
Arising on capitalisation issue (note 26(b))	_	57,418	_	57,418
Arising on shares issued on placing	343,970	230,391	343,970	230,391
Shares issue expenses	(13,083)	(38,868)	(13,083)	(38,868)
At end of the year	579,828	248,941	579,828	248,941
SPECIAL RESERVE				
At beginning of the year	1,167	21,731	_	_
Share exchange upon reorganisation (note 26 (a))		(20,564)	-	-
At end of the year	1,167	1,167	_	_
	,	,		
GOODWILL RESERVE				
At beginning and at end of the year	5,590	5,590	-	_
ACCUMULATED PROFITS (LOSSES)				
At beginning of the year	121,776	42,509	842	_
Profit (loss) for the year	127,916	79,267	(2,874)	842
At end of the year	249,692	121,776	(2,032)	842
REVALUATION RESERVE				
At beginning of the year	8,725	-	-	-
Surplus arising on valuation of land and buildings	25,665	12,536	-	_
Tax effect on valuation surplus	(6,888)	(3,730)	_	_
Share of valuation surplus by minority shareholders	(2,424)	(81)	-	
At end of the year	25,078	8,725	-	-
TOTAL RESERVES	861,355	386,199	577,796	249,783

28. RESERVES (CONT'D)

Under the Companies Law of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve, unless immediately following the date on which distributions or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

At the balance sheet date, the Company's reserves available for distribution to shareholders amounted to RMB577,796,000 (2001: RMB249,783,000).

29. ACQUISITION OF SUBSIDIARIES

During the years ended 31 December 2002 and 2001, the Company acquired the following companies, particulars of which are as follows:

Name of subsidiary	Acquired company	Equity interest acquired	Consideration RMB'000	Date of acquisition
Year ended 31 December 2002				
Xinao Jiangsu Investment Limited	鹽城新奧燃氣有限公司 Yancheng Xinao Gas Company Limited	80%	8,000	3 April 2002
Year ended 31 December 2001				
Xinao Huangdao Investment Limited	青島新奧燃氣有限公司 Qingdao Xinao Gas Company Limited	90%	18,232	23 May 2001
Xinao Pinggu Investment Limited	北京新奧京谷燃氣有限公司 Beijing Xinao Jinggu Gas Company Limited	70%	6,996	18 June 2001
Xinao Changping Investment Limited	北京新奧京昌燃氣有限公司 Beijing Xinao Jingchang Gas Company Limited	80%	7,920	16 August 2001

29. ACQUISITION OF SUBSIDIARIES (CONT'D)

The acquisition has been accounted for by the acquisition method of accounting and particulars of the acquisition are:

	2002	2001
	RMB'000	RMB'000
Net assets acquired		
Property, plant and equipment	13,999	41,137
Inventories	3,107	6,422
Trade and other receivables	1,660	23,327
Bank balances and cash	1,468	1,728
Trade and other payables	(15,233)	(32,856)
Bank loans	_	(3,058)
Minority interests	(1,116)	(6,387)
	0.005	00.010
- · · · ·	3,885	30,313
Goodwill	4,115	2,835
Total consideration	8,000	33,148
Satisfied by		
Cash consideration	8,000	33,148
Outflow of cash and cash equivalents arising on acquisition		
Cash consideration	8,000	33,148
Bank balances and cash acquired	(1,468)	(1,728)
	0.500	24 400
Net outflow of cash and cash equivalents in respect of purchase of subsidiaries	6,532	31,420

The financial impacts of the subsidiaries acquired during the year are:

	2002 RMB'000	2001 RMB'000
Results		
Contribution to the Group's turnover	9,256	36,888
Contribution to the Group's profit for the year	3,702	16,265
Cash flows		
Contribution to the Group's net operating cash flows	5,997	38,587
Payment in respect of taxation	-	(59)
Utilisation of funds for investing activities	(5,427)	(34,926)
Fund utilised in respect of financing activities	_	(17)

annual report 2002

30. MAJOR NON-CASH TRANSACTIONS

During the year, the Group acquired certain subsidiaries in the PRC. Apart from the cash contributions, the minority shareholders of these subsidiaries also contributed the capital in the form of assets.

The net assets contributed by the minority shareholders to these subsidiaries during the year are summarised as follows:

	RMB'000
Property plant and equipment	60,503
Trade and other receivables	2,441
Inventories	4,995
Trade and other payables	(20,890)
	47,049

31. CAPITAL COMMITMENTS

		THE GROUP
	2002	
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant		
and equipment contracted but not provided for in the financial statements	9,340	2,375

32. LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2002 RMB'000	2001 RMB'000
Within one year	1,806	997
In the second to fifth years inclusive	3,244	1,915
Over five years	-	188
	5,050	3,100

Leases are negotiated for an average term of 2 years and rentals are fixed for an average of 2 years.

32. LEASE COMMITMENTS (CONT'D)

The Group as lessor

Certain of the Group's properties with a carrying amount of RMB20,605,000 (2001: RMB21,115,000) are held for rental purposes. The depreciation charge of these properties amounted to RMB1,152,000 (2001: RMB1,559,000) for the year. The properties are expected to generate rental yields of 8.5% on an ongoing basis. All of the properties held have committed tenants for the next two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2002	2001
	RMB'000	RMB'000
Within one year	1,805	1,805
In the second to fifth years inclusive	1,805	1,805
	3,610	3,610

The Company had no operating lease commitments at the balance sheet date for both years.

33. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged certain assets as securities for general credit facilities granted as follows:

	2002 RMB'000	2001 RMB'000
Property, plant and equipment	73,601	48,737

34. RELATED PARTY TRANSACTIONS

Name of related party	Nature of transaction	2002 RMB'000	2001 RMB'000
Langfang Xincheng Property	Provision of gas connection services		
Development Company Limited	by the Group (Note i)	72	7,785
Langfang Xinao Hotel Management	Sales of gas		
Company Limited	by the Group (Note ii)	526	885
Langfang Xinao Property	Provision of gas connection		
Management Company Limited	services by the Group (Note i)	-	330
	Sales of gas by the Group (Note ii)	6,626	6,690
	Provision for management services		
	to the Group (Note iii)	1,299	1,056
	Lease of premises by the Group (Note iv)	330	330
Xinao Group Solar Energy	Sales of gas		
Company Limited	by the Group (Note ii)	-	46
Xinao Group Company Limited	Sales of gas by the Group (Note ii)	227	362
	Lease of premises by the Group		
	(Note iv)	1,475	1,475
	Reimbursement of management fee		
	(Note iv)	264	264
	Lease of premises to the Group		
	(Note iv)	-	136
Xinao Group Shijiazhong Chemical	Acquisition of compressed natural		
and Machinery Company Limited	gas truck trailers, pressure		
	regulating and gas equipment		
	(Note v)	25,980	7,755
Zhucheng City Gas and Heating	Acquisition of land and buildings		
Corporation	by the Group (Note vi)	1,560	_
淮安市燃氣總公司	Loan advance (Note vii)	28,254	-
	Interest on loan advance	248	-
新鄉市燃氣總公司	Loan advance (Note vii)	13,936	_
	Interest on loan advance	165	-
滁州市城市基礎設施開發建設有限公司	Loan advance (Note viii)	1,228	_

34. RELATED PARTY TRANSACTIONS (CONT'D)

Notes:

- (i) The provision of gas connection services was charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (ii) The sales of gas were charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers. Xinao Group Solar Energy Company Limited is a company controlled by Mr. Wang.
- (iii) The provision of management services was determined in accordance to the contract entered into between the Group and the related company.
- (iv) Rental for lease of premises and reimbursement of management fee were determined in accordance to the contracts entered into between the Group and the related companies.
- (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 consideration for acquisition of land and buildings was charged in accordance with prices by reference to the similar transactions with outsiders.
- (vii) The loans from minority shareholders are unsecured, carried interest at prevailing market rate and repayable on demand.
- (viii) The loan from minority shareholder is unsecured, interest free and repayable on demand.

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.

35. SEGMENT INFORMATION

(a) Business segments

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

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

	2002	2001
	RMB'000	RMB'000
Turnover		
Gas connection fees	330,915	184,796
Distributions of bottled liquefied petroleum gas	130,445	_
Sales of piped gas	73,588	50,594
Sales of gas appliances	9,544	5,170
	544,492	240,560
Profit from operations		
Gas connection fees	243,752	128,076
Distributions of bottled liquefied petroleum gas	(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 (Note)	(14,823)	(7,604)
- corporate expenses	(93,817)	(46,549)
	178,261	109,916

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

35. SEGMENT INFORMATION (CONT'D)

(a) Business segments (Cont'd)

An analysis of the Group's total assets and liabilities by business segment is as follows:

	2002	2001
	RMB'000	RMB'000
Assets:		
Segment assets		
gas connection fees	130,484	71,452
distributions of bottled liquefied petroleum gas	50,248	_
sales of piped gas	74,397	57,428
sales of gas appliances	11,030	11,177
unallocated segment assets	615,988	320,492
Unallocated corporate assets	888,218	262,756
	1,770,365	723,305
Liabilities:		
Segment liabilities		
gas connection fees	101,224	50,600
distributions of bottled liquefied petroleum gas	9,052	_
sales of piped gas	16,852	19,831
sales of gas appliances	14,672	2,740
unallocated segment liabilities	51,753	26,369
Unallocated corporate liabilities	539,318	153,600
	732,871	253,140

(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.

annual report 2002

36. CONTINGENT LIABILITIES

During the year, the Group had given guarantee to a bank in respect of banking facilities granted to a third party to the extent of RMB39,500,000 (2001: Nil). An amount of RMB37,500,000 was released subsequent to the balance sheet date.

37. RETIREMENT BENEFITS SCHEME

According to the relevant laws and regulations in the PRC, the PRC subsidiaries are required to contribute a certain percentage of the payroll of their employees to the retirement benefits scheme to fund the retirement benefits of their employees. With effect from 1 December 2001, a subsidiary of the Company is required to join a Mandatory Provident Fund Scheme for all its employees in Hong Kong. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the respective schemes. During the year, there were no forfeited contributions, which arose upon employees leaving the retirement benefits schemes, available to reduce the contribution payable in the future periods.

	2002	2001
	RMB'000	RMB'000
Retirement benefit contribution made during the year	4,486	1,167

38. POST BALANCE SHEET EVENTS

- (a) On 8 March 2003, Xinao Zhejiang Investment Limited, a wholly owned subsidiary of the Company, entered into an agreement with 蘭溪東升能源有限公司 to establish a sino-foreign equity joint venture, Lanxi Xinao Gas Company Limited, for the investment in gas pipeline infrastructure and provision of piped gas. The capital contributed by the Group amounted to US\$1,200,000.
- (b) On 19 March 2003, Xinao Jiangsu Investment Limited, a wholly owned subsidiary of the Company, entered into an agreement with 常州市武進燃氣總公司 to establish a sino-foreign equity joint venture, Changzhou Xinao Gas Company Limited, for the investment in gas pipeline infrastructure and provision of piped gas. The capital contributed by the Group amounted to US\$3,000,000.

39. PARTICULAR OF PRINCIPAL SUBSIDIARIES

	Place of incorporation/	Issued and fully paid share capital/	Proportion of nominal value of issued capital/ registered capital	
Name of company	establishment	registered capital	held by the Company	Principal activities
安吉新奧燃氣有限公司* ("Anji Xinao Gas Company Limited")	The PRC	Registered capital US\$1,500,000	90%	Investment in gas pipeline infrastructure and provision of piped gas
北京新奧燃氣有限公司* ("Beijing Xinao Gas Company Limited")	The PRC	Registered capital US\$1,195,600	95%	Investment in gas pipeline infrastructure and provision of piped gas
北京新奧京昌燃氣有限公司* ("Beijing Xinao Jingchang Gas Company Limited")	The PRC	Registered capital RMB9,900,000	80%	Investment in gas pipeline infrastructure and provision of piped gas
北京新奧京谷燃氣有限公司* ("Beijing Xinao Jinggu Gas Company Limited")	The PRC	Registered capital RMB9,900,000	70%	Investment in gas pipeline infrastructure and provision of piped gas
蚌埠新奥燃氣有限公司* ("Bengbu Xinao Gas Company Limited")	The PRC	Registered capital RMB110,000,000	70%	Investment in gas pipeline infrastructure and provision of piped gas and bottled liquefied petroleum gas
亳州新奥燃氣有限公司* ("Bozhou Xinao Gas Company Limited")	The PRC	Registered capital US\$4,000,000	70%	Investment in gas pipeline infrastructure and provision of piped gas
滁州新奥燃氣有限公司* ("Chuzhou Xinao Gas Company Limited")	The PRC	Registered capital RMB58,710,000	90%	Investment in gas pipeline infrastructure and provision of piped gas and bottled liquefied petroleum gas

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
海安新奧燃氣有限公司# ("Haian Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	100%	Investment in gas pipeline infrastructure and provision of piped gas
海寧新奧燃氣有限公司* ("Haining Xinao Gas Company Limited")	The PRC	Registered capital US\$5,000,000	80%	Investment in gas pipeline infrastructure and provision of piped gas
淮安新奥燃氣有限公司* ("Huaian Xinao Gas Company Limited")	The PRC	Registered capital RMB30,000,000	80%	Investment in gas pipeline infrastructure and provision of piped gas and bottled liquefied petroleum gas
葫蘆島新奧燃氣有限公司* ("Huludao Xinao Gas Company Limited")	The PRC	Registered capital US\$1,207,700	90%	Investment in gas pipeline infrastructure and provision of piped gas
萊陽新奧燃氣有限公司* ("Laiyang Xinao Gas Company Limited")	The PRC	Registered capital US\$5,000,000	95%	Investment in gas pipeline infrastructure and provision of piped gas and bottled liquefied petroleum gas
廊坊新奥燃氣有限公司# ("Langfang Xinao Gas Company Limited")	The PRC	Registered capital US\$9,333,900	100%	Investment in gas pipeline infrastructure and provision of piped gas
廊坊新奥燃氣設備有限公司# ("Langfang Xinao Gas Equipment Company Limited")	The PRC	Registered capital US\$360,000	100%	Manufacture of stored value card gas metre

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
聊城新奧燃氣有限公司* ("Liaocheng Xinao Gas Company Limited")	The PRC	Registered capital RMB16,000,000	90%	Investment in gas pipeline infrastructure and provision of piped gas
六安新奧燃氣有限公司# ("Luan Xinao Gas Company Limited")	The PRC	Registered capital RMB20,000,000	100%	Investment in gas pipeline infrastructure and provision of piped gas
青島新奧燃氣有限公司* ("Qingdao Xinao Gas Company Limited")	The PRC	Registered capital RMB20,000,000	90%	Investment in gas pipeline infrastructure and provision of piped gas and bottled liquefied petroleum gas
青島新奧新城燃氣有限公司* ("Qingdao Xinao Xincheng Gas Company Limited")	The PRC	Registered capital US\$1,610,000	90%	Investment in gas pipeline infrastructure and provision of piped gas
衢州新奥燃氣有限公司* ("Quxhou Xinao Gas Company Limited")	The PRC	Registered capital RMB50,000,000	90%	Investment in gas pipeline infrastructure and provision of piped gas
日照新奧燃氣有限公司* ("Rizhao Xinao Gas Company Limited")	The PRC	Registered capital US\$5,600,000	80%	Investment in gas pipeline infrastructure and provision of piped gas
石家莊新奧燃氣有限公司* ("Shijiazhong Xinao Gas Company Limited")	The PRC	Registered capital RMB130,000,000	70%	Investment in gas pipeline infrastructure and provision of piped gas

Name of company	Place of incorporation/establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
泰興新奧燃氣有限公司* ("Taixing Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	90%	Investment in gas pipeline infrastructure and provision of piped gas
新奧(中國)燃氣發展有限公司* ("Xinao (China) Gas Development Company Limited")	The PRC	Registered capital US\$6,000,000	100%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and provision of piped gas
Xinao Gas Investment Group Limited	British Virgin Islands	Share capital US\$1,000	100%	Investment holding
興化新奧燃氣有限公司# ("Xinghua Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	100%	Investment in gas pipeline infrastructure and provision of piped gas
新鄉新奧燃氣有限公司* ("Xinxiang Xinao Gas Company Limited")	The PRC	Registered capital US\$10,000,000	95%	Investment in gas pipeline infrastructure and provision of piped gas and bottled liquefied petroleum gas
鹽城新奧燃氣有限公司* ("Yancheng Xinao Gas Company Limited")	The PRC	Registered capital RMB50,000,000	80%	Investment in gas pipeline infrastructure and provision of piped gas
揚州新奧燃氣有限公司# ("Yangzhou Xinao Gas Company Limited")	The PRC	Registered capital US\$1,300,000	100%	Investment in gas pipeline infrastructure and provision of piped gas

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
煙台新奧燃氣有限公司# ("Yantai Xinao Gas Company Limited")	The PRC	Registered capital US\$2,100,000	100%	Investment in gas pipeline infrastructure and provision of piped gas
諸城新奧燃氣有限公司* ("Zhucheng Xinao Gas Company Limited")	The PRC	Registered capital US\$3,000,000	80%	Investment in gas pipeline infrastructure and provision of piped gas and bottled liquefied petroleum gas
鄒平新奥燃氣有限公司# ("Zouping Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	100%	Investment in gas pipeline infrastructure and provision of piped gas and bottled liquefied petroleum gas

All of the above subsidiaries, except for Xinao Gas Investment Group Limited, are indirectly held by the Company.

All subsidiaries operate principally in their respective place of incorporation/establishment.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting as at 31 December 2002 or at any time during the year.

- * Sino-foreign equity joint venture
- # Foreign owned enterprise

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the "Meeting") of Xinao 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

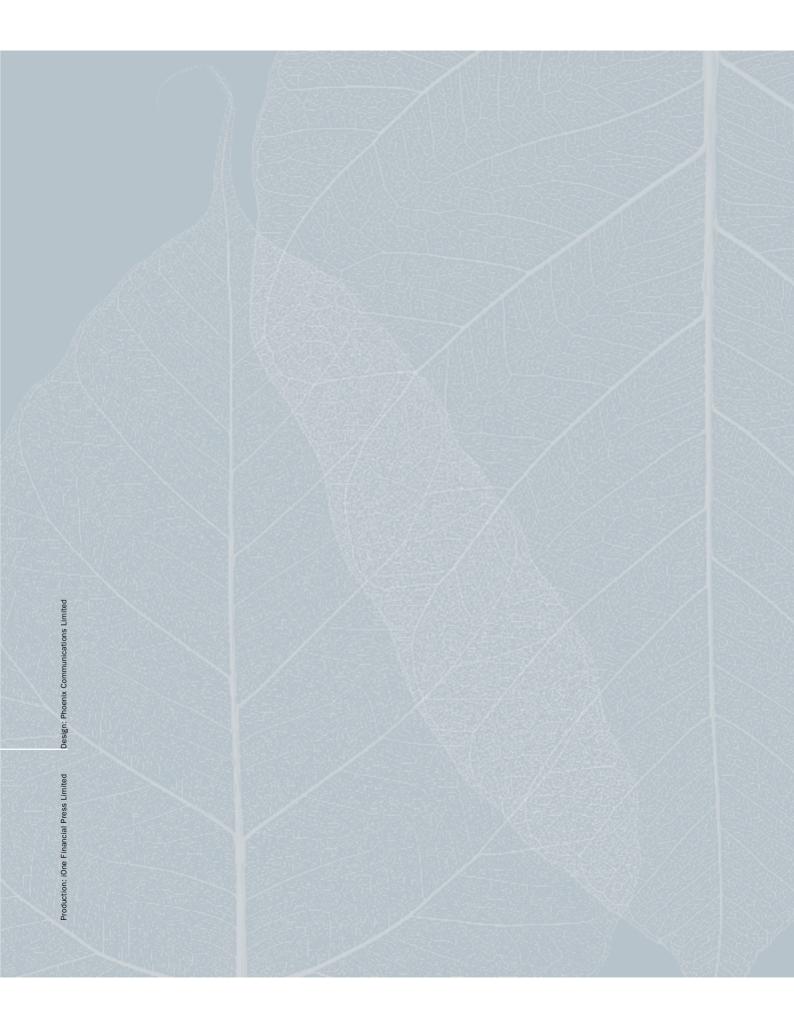
Company Secretary

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.





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