## XINAO GAS HOLDINGS LIMITED

2003



>12:30pm >19:15pm >20:26pm

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>09:45am >13:22pm >17:19pm

#### WE FEEL THE POWER AT EVERY MOMENT.

SEIZING OPPORTUNITIES OF GROWING GAS MARKET, WE PREFECT OURSELVES TO BRING NATURAL GAS INTO PEOPLE'S LIFE AND INDUSTRIAL PRODUCTION TO IMPROVE LIVING STANDARD AND ECONOMIC EFFICIENCY AND PROMOTE ENVIRONMENTAL PROTECTION IN THE PRC.



NATURAL GAS IS A CLEAN, SAFE, EFFICIENT AND ECONOMICAL ENERGY SOURCE. THE USE OF NATURAL GAS CAN REDUCE THE SERIOUS POLLUTION CAUSED BY A COAL-FRIED ECONOMY.



## **OUR MISSION OF** BECOMING THE LEADING PIPED NATURAL GAS **OPERATOR IN THE PRC**

>11:30pm

>15:35pm

## CORPORATE INFORMATION

#### >09:45am

#### **BOARD OF DIRECTORS**

Wang Yusuo (Chairman)

Yang Yu (Chief Executive Officer)

Chen Jiacheng

Zhao Jinfeng

Qiao Limin

Jin Yongsheng

Yu Jianchao

Cheung Yip Sang

Cheng Chak Ngok

#### Non-executive Director

Zhao Baoiu

#### Independent non-executive Director

Wang Guangtian

Xu Liang

#### **COMPANY SECRETARY**

Cheng Chak Ngok, FCCA, AHKSA, ACIS, ACS

#### **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

#### >23:17pm

#### 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

Industrial and Commercial Bank of China China Construction Bank Agricultural Bank of China Bank of China (Hong Kong)

#### **WEBSITE**

www.xinaogas.com

#### **E-MAIL ADDRESS**

xinao@xinaogas.com

## THE POWER FROM

## **EXPANSION**



AS OF 2003, XINAO GAS EXTENDED ITS PIPELINE NETWORK TO 9
PROVINCES AND BEIJING
MUNICIPALITY. IT HAD EXCLUSIVE
RIGHTS TO OPERATE PIPED GAS IN
41 CITIES WITH A TOTAL URBAN
POPULATION OVER 18.7 MILLION.





## THE POWER FROM

# **PERFECTION**

>09:52am

>12:30pm

>13:48pm

>16:15pm





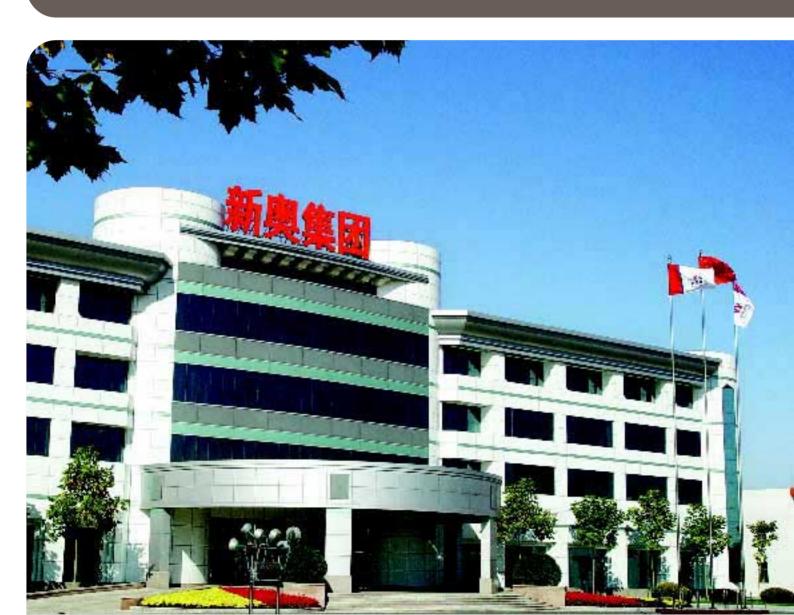
WE ARE PERFECTING OURSELVES ON THE OPERATION, MANAGEMENT, SAFETY AND SERVICE OF THE COMPANY TO CREATE VALUE FOR OUR SHAREHOLDERS, CUSTOMERS, STAFF AND SOCIETY. OUR OUTSTANDING

PERFORMANCE CONTINUES TO WIN US INTERNATIONAL AWARDS.

## CHAIRMAN'S STATEMENT

>09:37am >15:22pm

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

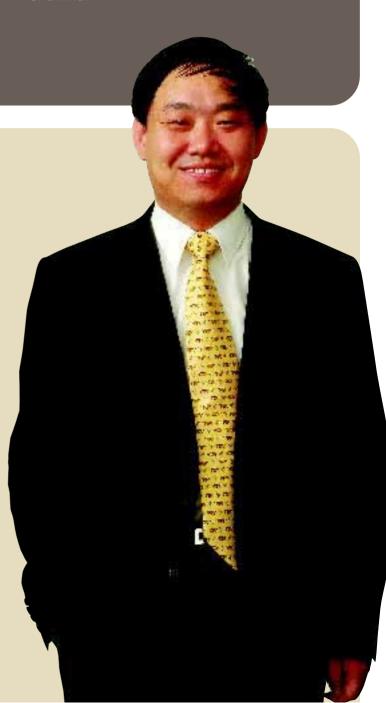


#### WANG Yusuo Chairman

#### **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 reached RMB878,055,000 and RMB183,090,000 respectively, representing increases of 61.3% and 43.1% over last year respectively. Earnings per share increased by 37.8% to RMB24.8 cents.

The Group secured 13 new projects this year, including one in a provincial capital, six in cities at prefecture level and six in cities at county level and districts, thus accomplishing more than this year's target of securing six to eight new projects. Three of the new projects secured this year are in Hunan Province, three in Zhejiang Province, two in Jiangsu Province, two in Shandong Province and one in each of the provinces of Anhui, Henan and Guangdong. Total connectable population coverage increased by 98.8% to approximately 18.7 million. Changsha Xinao Gas Company Limited, a new project company in Hunan Province, was the second provincial capital project secured by the Group after Shijiazhuang project in Hebei secured last year. It reflects once again the Group's high competence in investment, operation and management as well as its competitive advantages in the industry. This also shows 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.



## CHAIRMAN'S STATEMENT

#### >06:11am

As at the end of 2003, the Group made natural gas connections to a total of 381,283 residential households and 782 commercial/industrial customers (connected to gas appliances of a total installed designed daily capacity of 532,793 m³), representing increases of 170,433 residential households and 280 commercial/industrial customers (with an increase of a total installed designed daily capacity of 167,680 m³) when compared to 2002. The sales volume of natural gas for the year also increased tremendously by 1.4 times. This fully demonstrates the benefits of economies of scale achieved by the Group by operating large scale projects, and it also shows customers' high acceptability of natural gas as a clean, efficient, safe and economical energy source.

#### **FINANCIAL POSITION**

As at the end of 2003, the Group's cash on hand was RMB487,129,000, and bank and other borrowings were RMB1,111,926,000. There were credit facilities of RMB3 billion granted by local financial institutions to the Group's project companies for future operation and development. The reason for the increase of borrowings of the Group over last year was that the Group acquired not just assets, but also bank and other borrowings from the PRC JV partners, when acquiring large scale projects, and these assets and liabilities were injected into the joint ventures. However, the assets and liabilities ratios of these large scale projects are healthy, and they usually have high revenue and earning capacity. Therefore, the increase in liabilities is normal during acquisition process. When the gas penetration rates increase in these project companies, their liabilities will decrease gradually.

During the year, the Company signed a 3-year unsecured syndicated loan of US\$45 million participated by many foreign funded banks, and we also successfully brought in internationally renowned institutional investors as our shareholders. These demonstrate once more that the existing performance of Xinao Gas and the prospects of the industry are highly recognised by international investors and banks.

#### INTERNATIONAL AWARDS

Because of the excellent management of the Group's management team, Xinao Gas continued to obtain many awards from various prominent international financial magazines during the year:

"The 200 Best Small Companies" by Forbes Global for three consecutive years;

the "Best Small Cap Company (China)" by *AsiaMoney* for three consecutive years;

the "Chinese Business 500" by Yazhou Zhoukan for three consecutive years;

the "Top 20 Chinese Enterprises of Revenue Growth" by *Yazhou Zhoukan* for two consecutive years; the "Top 20 Chinese Enterprises of Assets Growth" by *Yazhou Zhoukan* for the first time; and the "Overall Best Managed Company (China)" by *AsiaMoney* again this year after getting this award in 2001.

The above awards, voted by international institutional investors and analysts, prove 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. The Group's management team will continue to devote all their efforts to maintain this hard-won achievement and to increase further the accomplishment, so as to create greater value for shareholders and the Company.

#### **CORPORATE MANAGEMENT**

Since its listing, the Company has got gas projects in nine provinces and Beijing Municipality. The rapid expansion of the Group's business gives its management team a great challenge. Therefore, the Group has set up a regional management centre in each province and appointed from the headquarters senior management familiar with corporate operation and culture as general managers of the regional management centres, so as to enhance regional management. The Chief Executive Officer communicates with the regional general managers frequently to enhance the management of the Group as a whole and ensure that the Group's targets can be fulfilled.

#### **CUSTOMER SERVICE**

In 2003, Bengbu Xinao Gas Company Limited, Huaian Xinao Gas Company Limited, Xinxiang Xinao Gas Company Limited and Shijiazhuang Xinao Gas Company Limited followed the footsteps of Langfang Xinao Gas Company Limited, Liaocheng Xinao Gas Company Limited and Huludao Xinao Gas Company Limited to launch the "95158" national 24-hour hotline. Our customers can simply dial 95158 to access their local 24-hour customer service centre and communicate with us conveniently. In case of emergency, we uphold our promise to arrive at the site within 20 minutes to carry out repair work. Our emergency-repair vehicles are approved by the local governments to be equipped with sirens similar to those on police cars, so that we will be able to arrive at the site immediately in any emergency.

Quality customer service is the key for maintaining good and long term relations between the Company and customers. The Group upholds the principle of "361° service – more service, much more satisfaction" and makes every effort to provide quality service of high efficiency and safety standards to our customers. Because of our quality service, the Group's subsidiaries have won recognition and credit from local customers as well as government authorities in the cities they operate and become the models for other public utilities to follow. The best evidence is that many of the project companies have been awarded "Unit offering the highest satisfaction to customers" by local consumer councils during the year. Apart from the Group's investment ability and efficient and safe operational management, quality service has also become Xinao Gas' major competitive advantage in competing for new projects.

#### **HUMAN RESOURCES**

As at the end of 2003, the Group had 6,184 employees, representing an increase of 91.0% over last year, which was mainly because of the increased number of project cities from 29 to 41. The Group's actual manpower productivity increased by 8.6% over last year when taking into account the fact that the connectable population of the Group increased by 98.8% during the year. The increase in the Group's productivity depended upon the Group's appropriate human resources strategy. During the year, the Group hired university lecturers and professionals to give internal training to the staff to prepare for the Group's future development.

#### **PROSPECTS**

The use of natural gas, a clean and efficient energy source, is strongly promoted by the PRC government, and foreign investors are encouraged to invest in the downstream gas distribution market. At the end of 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, including city gas. Foreign investors are now allowed to take a majority stake in or completely own such projects. Therefore, the Group believes that with the liberalisation of the city gas market, city piped natural gas in the PRC will have even faster and healthier development.

The government's policy not only suggests the pace of market liberalisation in city gas industry is proceeding fast, but also implies a full legal framework on city gas distribution will be formed soon. There will be a monitoring system on natural gas that can match up the market reform and also a legitimate means of protection to gas companies. We are confident that with the central government's encouraging policy, piped natural gas market will have further development, and the investment risks for gas operators will be further reduced.

ANNUAL REPORT 2003

The "West-to-East Pipelines" ("W-E") is one of the policies showing the PRC government's support for the use of natural gas. The long distance pipelines of this project started to supply natural gas in 2003, and the construction of the branches is under progress. W-E passes through cities in 9 provinces and Shanghai Municipality and greatly increases the number of cities being able to use natural gas. The operation of W-E project and the smooth progress of plans of exploring natural gas under seabed and importing liquefied natural gas (LNG) from overseas, together with central and local governments' emphasis on using natural gas and higher popularity of natural gas among consumers, will help the rapid and continuous development of downstream natural gas business. As a result, the Group will have even greater business development prospects.

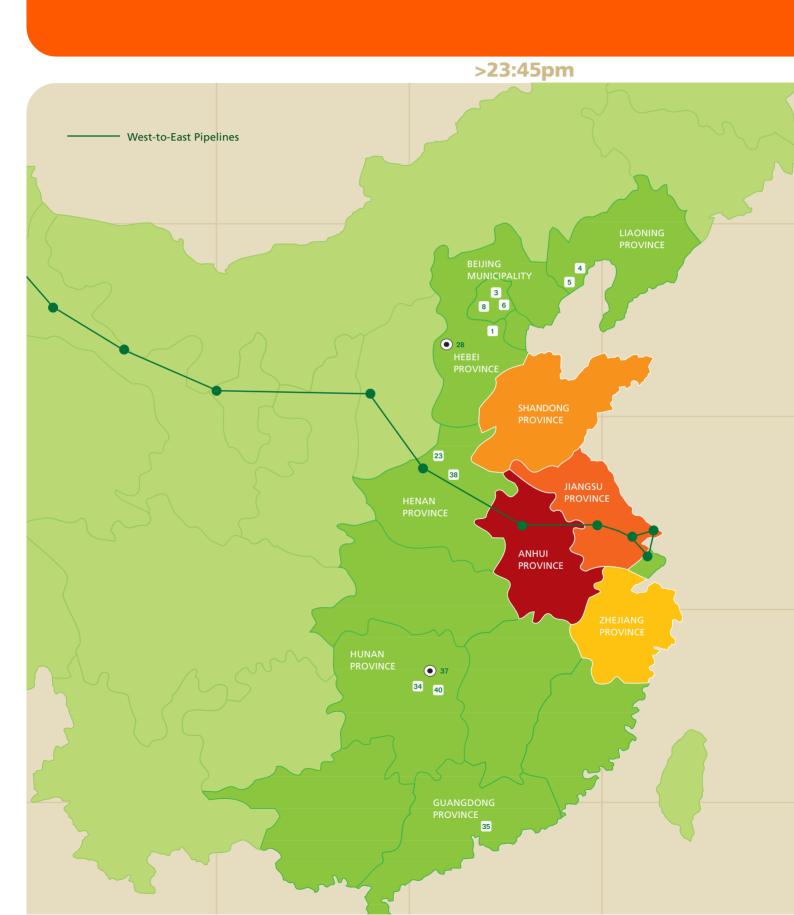
Under such favourable conditions, we believe that the Group will continue to obtain new projects without much difficulty. It is expected that in 2004, as in the past, the Group will be able to secure new quality projects in large and medium cities. Despite the huge market opportunities, we will remain prudent and conduct the most cautious feasibility study on each project before making any investment decision, so as to maximise shareholders' wealth.

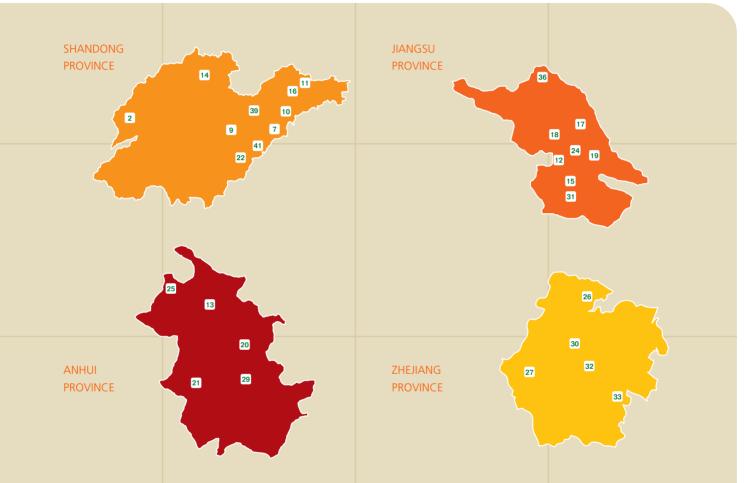
#### **WANG Yusuo**

Chairman

20 April 2004

## OPERATIONAL LOCATIONS





OPERATIONAL LOCATION	CONNECTABLE POPULATION AS AT THE END OF 2002	OPERATIONAL LOCATION	CONNECTABLE POPULATION AS AT THE END OF 2002	OPERATIONAL LOCATION	CONNECTABLE POPULATION AS AT THE END OF 2002
1 LANGFANG	300,000	15 TAIXING	202,000	29 CHAOHU	220,000
3 MIYUN	98,000	17 YANCHENG	478,000	31 WUJIN	194,000
	427,000				
5 XINGCHENG	126,000	19 HAIAN	117,000	33 WENZHOU*	_
7 HUANGDAO	102,000	21 LUAN	260,000	35 DONGGUAN	3,870,000
9 ZHUCHENG	163,000	23 XINXIANG	786,000	37 CHANGSHA	1,800,000
			172,000		
11 YANTAI	5,000	25 BOZHOU	300,000	39 JIAOZHOU	300,000
13 BENGBU	539,000	27 QUZHOU	190,000	41 JIAONAN	200,000
14 ZOUPING	137,000				

<sup>\*</sup> Xinao Gas' operational location in Wenzhou is in the development zone and does not have population data.

#### **PROJECT OPERATIONAL DATA**

>06:11am >09:32am

Operational data as at 31 December 2003

	Operational location <sup>(1)</sup>	Year of first establishment	Length of existing pipelines (km) <sup>(2)</sup>	Number of existing processing stations	Combined designed daily capacity of existing processing stations	Contracted number of gas supply to households <sup>(3)</sup>	Contracted number of gas supply to commercial/ industrial customers (site) <sup>(3)</sup>
1	Langfang	1993	233	4	410,000	75,730	339
2	Liaocheng	1999	129	1	50,000	41,765	85
3	Miyun	1999	52	2	132,000	16,656	63
4	Huludao	1999	115	1	30,000	51,863	102
5	Xingcheng <sup>(6)</sup>	2002					-
6	Pinggu	2000	57	1	72,000	14,002	38
7	Huangdao	2000	107	1	72,000	27,929	35
8	Changping	2000	65	1	72,000	21,291	43
9	Zhucheng	2001 2001	37 86	1 2	30,000 350,000	10,614 23,664	9 19
10 11	Chengyang Yantai	2001	1	1	30,000	23,004	2
12	Gaoyou	2001	22	1	72,000	3,376	8
13	Bengbu	2001	54	1	96,000	25,972	10
14	Zouping	2002	27	1	72,000	5,725	12
15	Taixing	2002	18	1	96,000	5,736	4
16	Laiyang	2002	36	1	72,000	9,167	3
17	Yancheng	2002	31	1	30,000	12,373	7
18	Huaian	2002	99	1	70,000	23,137	10
19	Haian	2002	16	1	72,000	4,581	5
20	Chuzhou	2002	122	2	417,000	18,135	6
21	Luan	2002	18	1	72,000	11,962	3
22	Rizhao	2002	35	1	300,000	10,616	10
23	Xinxiang	2002	210	1	500,000	29,943	35
24	Xinghua	2002	13	1	50,000	2,730	1
25	Bozhou	2002	19	1	46,000	6,000	1
26 27	Haining	2002 2002	7 18	- 1	144,000	3,629 6,539	2 1
28	Quzhou Shijiazhuang	2002	71	1	602,000	18,787	10
29	Chaohu	2002	10	1	220,000	6,776	-
30	Lanxi	2003	-	_	220,000	200	_
31	Wujin	2003	94	1	430,000	6,123	12
32	Jinhua	2003	_	<u>.</u>	-	3,412	4
33	Wenzhou	2003	_	_	_	-	
34	Xiangtan	2003	-	-	_	5,025	3
35	Dongguan	2003	-	-	-	_	-
36	Lianyungang	2003	-	-	-	2,252	1
37	Changsha	2003	-	-	-	16,391	10
38	Kaifeng	2003	156	1	100,000	2,438	15
39	Jiaozhou	2003	-	-	=	2,045	1
40	Zhuzhou	2003	-	-	=	-	-
41	Jiaonan	2003	-	-	-	-	-
Total			1,958	35	4,709,000	526,584	909

#### Notes:

<sup>(1)</sup> During the year, each project company is split into two companies to separate the pipeline construction business and gas distribution business. The combined data of the two companies in each operational location is shown in this table.

<sup>(2)</sup> Existing pipelines consist of intermediate pipelines and main pipelines.

<sup>(3)</sup> The difference between contracted number of gas supply and number of gas connections made represents connections to be made.

#### >15:47pm

Number of gas connections made to households <sup>(3)</sup>	Number of gas connections made to commercial/ industrial customers (site) <sup>(3)</sup>	Number of acquired households	Number of acquired commercial/industrial customers	Estimated daily gas consumption for households (m³)(4)	Installed designed daily capacity for commercial/ industrial customers (m³) <sup>(5)</sup>
71,365	328	_	_	28,546	214,279
30,864	64	_	_	12,346	36,287
11,005	53	_	_	4,402	80,483
43,224	96	-	_	17,290	50,183
· _	_	-	_	· -	· -
7,901	31	-	_	3,160	11,104
22,194	30	-	_	8,878	18,225
16,333	34	-	_	6,533	9,312
6,323	4	-	-	2,529	1,562
13,106	17	_	_	5,242	7,865
_	2	-	-	_	12,000
2,160	8	_	_	864	730
19,075	6	_	_	7,630	14,790
3,976	8	-	-	1,590	2,926
4,037	4	-	-	1,615	3,416
7,700	3	-	-	3,080	2,650
8,579	7	-	-	3,432	18,085
16,824	9	-	-	6,730	3,039
1,611	4	-	-	644	1,131
13,529	6	-	-	5,412	2,581
6,838	2	-	-	2,735	86
8,055	9	-	-	3,222	3,113
26,926	19	-	-	10,770	2,843
971	1	-	-	388	500
1,074	1	-	-	430	2,884
2,640	1	-	-	1,056	265
5,040	1	-	-	2,016	288
12,228	4	894	1	5,249	80,707
2,554	-	-	-	1,022	-
-	-	-	-	-	-
3,530	10	-	-	1,412	6,932
2,591	3	-	-	1,036	62
	-	-	-		-
1,190	-	-	-	476	-
	-	-	-		-
2,196	_	-	-	878	-
3,902	5	-	-	1,561	15,255
1,742	12	79,722	188	32,586	19,670
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
381,283	782	80,616	189	184,760	623,253

- Estimated daily gas consumption for households is calculated based on estimated average daily gas consumption of 0.4m³ per connected and acquired (4) residential household.
- It is estimated that connected and acquired commercial/industrial customers have a daily consumption about 50% of the installed designed daily (5) capacity of the gas appliances (as set out in the respective supply contracts).
- The project in Xingcheng is operated by Huludao Xinao as a branch company. The operational data is included in Huludao. (6)

## OPERATIONAL AND FINANCIAL SUMMARY

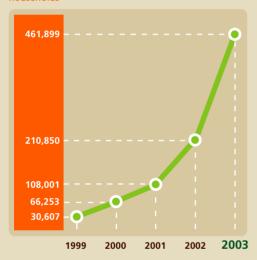
#### >11:52am

#### >14:36pm

#### **OPERATIONAL**

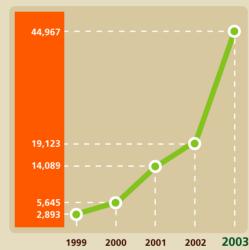
ACCUMULATED NUMBER OF GAS CONNECTIONS MADE TO RESIDENTIAL HOUSEHOLDS

Number of households



UNITS OF PIPED GAS SOLD TO RESIDENTIAL HOUSEHOLDS

′000 m<sup>3</sup>



ACCUMULATED INSTALLED DESIGNED DAILY CAPACITY FOR COMMERCIAL/INDUSTRIAL CUSTOMERS

 $m^3$ 



UNITS OF PIPED GAS SOLD TO COMMERCIAL/INDUSTRIAL CUSTOMERS

'000 m<sup>3</sup>



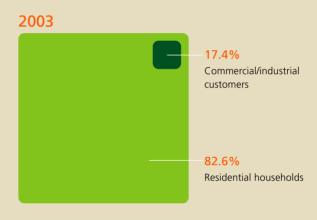
>19:41pm

## TURNOVER BREAKDOWN BY CUSTOMER

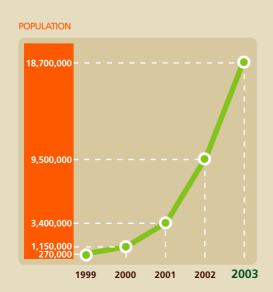
LENGTH OF EXISTING INTERMEDIATE PIPELINES AND MAIN PIPELINES



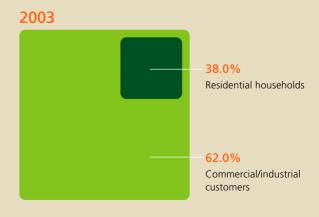
CONNECTION FEES



COVERAGE OF CONNECTABLE POPULATION



SALES OF PIPED GAS



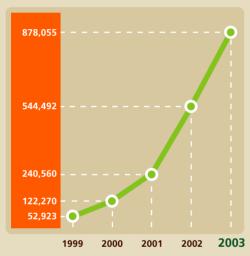
## OPERATIONAL AND FINANCIAL SUMMARY

#### >21:57pm

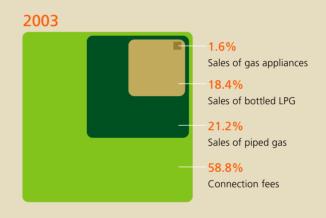
#### **FINANCIAL**

TURNOVER

#### RMB'000

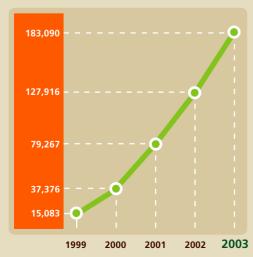


#### TURNOVER BREAKDOWN BY SEGMENT



#### PROFIT FOR THE YEAR





#### 2002



#### **COMPARISON OF FIVE-YEAR RESULTS**

>11:29am >03:46am

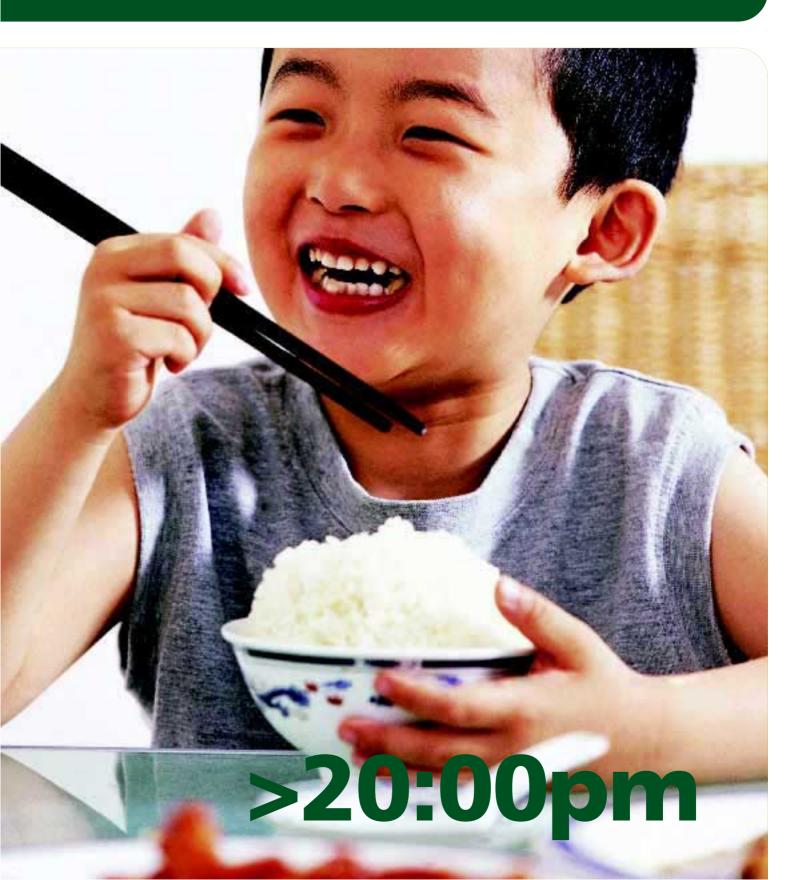
	2003	2002	2001	2000	1999
Highlights (Group)  Number of connected households  Installed designed daily capacity for	381,283	210,850	108,001	66,253	30,607
commercial/industrial customers (m³)	532,793	365,113	269,747	139,302	104,026
Units of piped gas sold Residential households (m³) Commercial/industrial customers (m³) Length of existing pipelines (1) (km) Number of gas processing stations	44,967,000 71,626,000 1,958 35	19,123,000 30,407,000 791 25	14,089,000 20,496,000 464 12	5,645,000 11,259,000 257 7	2,893,000 8,890,000 143 2
Combined designed daily capacity of existing processing stations (m³)	4,709,000	3,178,000	837,800	561,800	100,000
Turnover & Profit (000'RMB) Turnover	878,055	544,492	240,560	122,270	52,923
Profit before taxation Income tax expenses Profit after taxation Minority interests Profit for the year	199,242 (2,957) 196,285 (13,195) 183,090	156,058 (12,324) 143,734 (15,818) 127,916	99,598 (11,081) 88,517 (9,250) 79,267	50,370 (6,976) 43,394 (6,018) 37,376	25,572 (3,836) 21,736 (6,653) 15,083
Dividends	-	-	-	30,529	-
Assets & Liabilities Non-current assets Associate Jointly controlled entities Current assets Current liabilities Non-current liabilities	2,104,824 10,394 22,105 960,602 (1,032,785) (587,594)	925,307 - 2,500 842,558 (456,841) (276,030)	415,824 - - 307,481 (201,195) (51,945)	260,999 - - 174,032 (334,507) (20,915)	96,920 - - 161,784 (147,667) (15,000)
Net assets	1,477,546	1,037,494	470,165	79,609	96,037
Capital & Reserves Share capital Reserves	78,122 1,059,977	78,122 861,355	66,462 386,199	– 69,830	- 57,393
Shareholders' funds	1,138,099	939,477	452,661	69,830	57,393
Minority interests	339,447	98,017	17,504	9,779	38,644
	1,477,546	1,037,494	470,165	79,609	96,037
Earnings per share	24.8 cents	18.0 cents	14.3 cents	8.9 cents	3.6 cents

<sup>(1)</sup> Length of existing pipelines consists of intermediate pipelines and main pipelines.

# THE POWER FOR LIFE

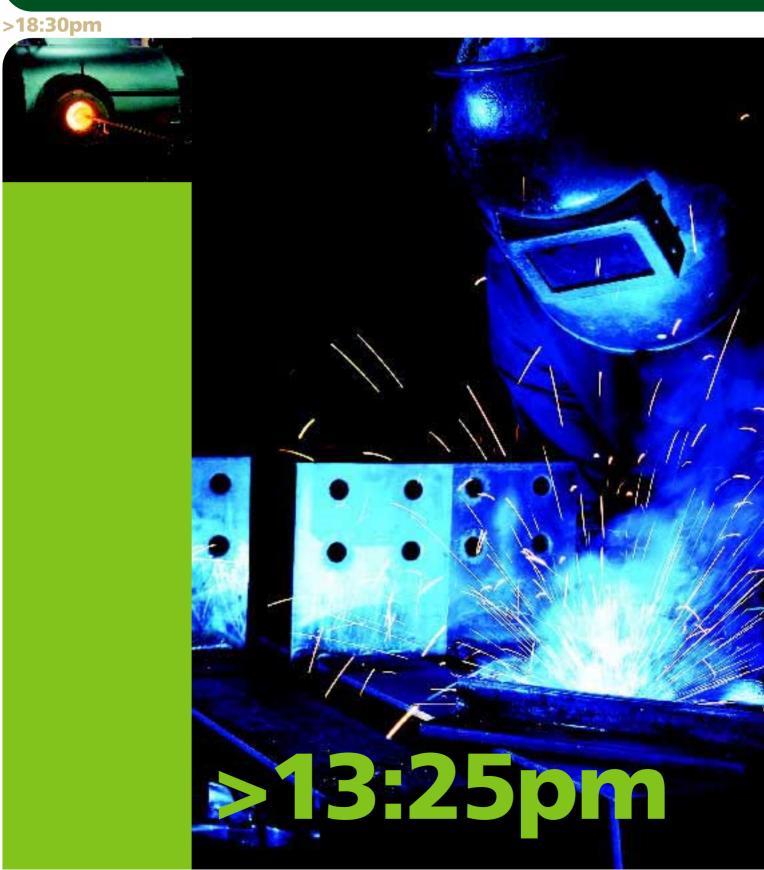
>18:30pm >19:17pm >19:32pm >20:11pm

NATURAL GAS CAN BE USED FOR COOKING, BOILING AND HEATING IN HOUSEHOLDS. IT SAVES LARGE PORTION OF EXPENSES EVERY MONTH WHEN COMPARING TO OTHER ENERGY SOURCES LIKE ELECTRICITY, LPG AND COAL GAS.



## THE POWER FOR

# **PRODUCTION**





>19:32pm







WITH THE COMPLETION OF WEST-TO-EAST PIPELINES, MORE INDUSTRIAL USERS WILL BE ABLE TO USE THIS CLEAN, SAFE, EFFICIENT AND ECONOMICAL ENERGY SOURCE TO FURTHER INCREASE ECONOMIC EFFICIENCY.

MANAGEMENT DISCUSSION AND ANALYSIS

>00:30am

>09:27am

## THE POWER OF MANAGEMENT



ANNUAL REPORT 2003





#### **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. The use of coal severely pollutes the environment, while natural gas is among the cleanest, safest, most efficient and economical energy sources; therefore, the PRC government is vigorously promoting the use of natural gas as a clean energy source.

According to the official estimates of GDP growth and energy demand growth in the Tenth-Five period, natural gas consumption in the PRC is expected to increase from 22.1 billion m³ in 1998 to 50 billion m³ in 2005, representing around 4.5% of the total energy consumption in the PRC. Comparing to the Ninth-Five period, the annual growth rate of natural gas consumption in the Tenth-Five period will be 13.0%, and the ratio of natural gas consumption to total energy consumption will rise to around 7% by 2010.

#### THE NATURAL GAS POLICY IN THE PRC

At the end of 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, including city gas. Foreign investors are now allowed to take a majority stake in or completely own such projects. Therefore, the Group believes that with the liberalisation of the city gas market, city piped natural gas in the PRC will have even faster and healthier development.

The government's policy not only suggests the pace of market liberalisation in city gas industry is proceeding fast, but also implies a full legal framework on city gas distribution will be formed soon. There will be a monitoring system on natural gas that can match up the market reform and also a legitimate means of protection to gas companies. We are confident that with the central government's encouraging policy, piped natural gas market will have further development, and the investment risks for gas operators will be further reduced.

The "West-to-East Pipelines" ("W-E") is one of the policies showing the PRC government's support for the use of natural gas. The long distance pipelines of this project started to supply natural gas in 2003, and the construction of the branches is under progress. W-E passes through cities in 9 provinces and Shanghai Municipality and greatly increases the number of cities being able to use natural gas.

#### MANAGEMENT DISCUSSION AND ANALYSIS

#### >13:52pm



Our strong piped gas distribution networks lay a solid foundation for gas sales revenue

The operation of W-E project and the smooth progress of plans of exploring natural gas under seabed and importing liquefied natural gas (LNG) from overseas, together with central and local governments' emphasis on using natural gas and higher popularity of natural gas among consumers, will help the rapid and continuous development of downstream natural gas business. As a result, the Group will have even greater business development prospects.

During the year, the Group cooperated with Utilise Training & Development Solutions Limited, a professional training institute in the UK, and introduced advanced training system on gas profession from the UK into the PRC. This training was a cooperative program between the Chinese and British government, and its implementation was highly supported by the Ministry of Construction. This proves the Group's leading position in the industry and its good relationship with the government.

All the above reflect Xinao Gas' distinguished and leading position in the PRC gas market, its increasing brand name and influence on the industry, and its status as one of the largest gas operators in the PRC.

#### **BUSINESS REVIEW**

The principal business of the Group is the construction of gas pipelines, the sale of piped gas, the sale of bottled liquefied petroleum gas ("LPG") and the sale of gas appliances.

#### CONSTRUCTION OF GAS PIPELINES

During the year, in order to enhance market planning for connection business and speed up the development of this business, the Group worked with a consultancy firm launching a marketing project, the implementation of which will have significant effect on the Group's growing performance on connection business in the future.

As the households connected to natural gas only accounted for 7.4% of the total connectable households, it is expected that the Group will continue to have huge revenue from connection, and it will continue to be the major revenue source of the Group. However, the Group's sales of natural gas will increase rapidly when the W-E fully commences gas supply in 2004, and the Group expects the proportion of connection revenue to remain about the same with slight increase

ANNUAL REPORT 2003

#### >23:41pm



Stable natural gas sources facilitate us to explore more commercial/industrial

#### **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 buildings and the existing buildings. Our target is to achieve a high penetration rate of natural gas usage in each project city, and to protect the environment as a result. Most of the local governments in the 41 existing project cities have prescribed the installation of piped natural gas as one of the conditions for approving the construction of new buildings. This policy shows clearly the government's support for the use of natural gas and will assist the Group further in raising the penetration rate and stabilising the revenue from connection fees, which are collected from the property developers directly.

As natural gas is more environmentally-friendly, economical, convenient and safer when comparing to other energy sources, more and more residential households take the initiative to get connected to piped natural gas, and flats connected to piped natural gas have become popular and are preferred by new home buyers. These boost the connection business of the Group and lower the Group's cost for getting new customers.

During the year, the Group made connections to 170,433 residential households, 65.7% higher than last year. The average connection fee paid by households was RMB2,687, slightly increased by 3.7% as compared to last year. The primary reason for the increase of the average connection fee is that apart from cooking stoves, customers also choose to get connected to boilers and heaters, which are of higher price. This shows once more the popularity of natural gas among customers.

As at the end of 2003, the Group provided natural gas connections to a total of 381,283 households, which accounted for 7.4% of the overall connectable population of the Group.

#### COMMERCIAL/INDUSTRIAL CUSTOMERS

Organisations engaging in industrial production and commercial activities, such as factories, hotels, shopping malls, schools and hospitals, 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 access to natural gas through our pipeline network, which facilitates the connection business.

#### MANAGEMENT DISCUSSION AND ANALYSIS

>05:33am

>11:47pm

Also, as many local governments in the PRC have devoted much attention to environmental protection in recent years, they have put more efforts in controlling industrial pollution. Many of them do not allow the use of coal as an industrial fuel any more and do not grant permissions to the setting up of new commercial/industrial projects that are not using clean energy. In addition, W-E is going to supply natural gas to cities along the pipelines, and the supply of natural gas will not be restrained by the lack of gas source as in the past. The positive measures and more stable gas source will all help the Group's business development in connecting commercial/industrial customers.

During the year, the Group provided natural gas connections to 280 commercial/industrial customers (connected to gas appliances of a total installed designed daily capacity of 167,680 m³). The average connection fee was RMB511 per cubic metres, 11.1% lower than last year. The main reason for the decrease was that the Group offered discounts to commercial/industrial customers to increase the rate of connection because they will consume huge volume of gas and become the major gas users.

As at the end of 2003, the Group provided piped natural gas connections to a total of 782 commercial/industrial customers (connected to gas appliances of a total installed designed daily capacity of 532,793 m<sup>3</sup>).

#### **NEW PROJECTS**

In 2003, the Group continued to take an active role in the exploration of new projects. The Group's projects increased from 29 last year to 41 this year, and the connectable population grew tremendously by 98.8% from 9.5 million (approximately 3.16 million households) to 18.7 million (approximately 6.23 million households) by the end of 2003. This further stabilises the Group's future income, consolidates its customer base and makes the Group one of the professional city gas operators in the PRC covering the largest population.

New projects secured by the Group in 2003 are as follows:

Hunan Province	Changsha*, Xiangtan, Zhuzhou
Jiangsu Province	Lianyungang, Changzhou
Zhejiang Province	Wenzhou, Jinhua, Lanxi
Guangdong Province	Dongguan
Anhui Province	Chaohu
Shandong Province	Jiaozhou, Jiaonan
Henan Province	Kaifeng

<sup>\*</sup> Provincial capital

Project disposed by the Group in 2003 is as follows:

Zhejiang Province Anji

The new projects the Group obtained during the year are mainly located along the W-E long distance pipelines or its branches that are under construction. During the year, three of the Group's subsidiaries, Xinxiang Xinao Gas Company Limited ("Xinxiang Xinao), Chuzhou Xinao Gas Company Limited ("Chuzhou Xinao) and Changzhou Xinao Gas Company Limited ("Changzhou Xinao), started to use the natural gas transmitted by W-E Pipelines. It does not only guarantee stable gas source, but also offers lower cost for higher profit for the Group.

Changsha Project is the second provincial capital project of the Group after Shijiazhuang Project obtained last year. This has demonstrated once more the government's recognition of the Group's management ability, operation safety and financial strength. The securing of the Changsha Project makes the Group a more professional gas operator with larger scale and paves the way for the Group for obtaining other large city projects.

Comparing to 2002, the new projects obtained in 2003 were larger in scale and higher in quality. Projects like Xiangtan, Zhuzhou, Lianyungang, Wenzhou, Dongguan and Kaifeng are cities with strong economy, well-developed industries and high population, and they pave the way for the Group

#### >18:55pm

for its future expansion in connection business. Also, the Group put more emphasis on the development of city groups as a whole, such as "Changsha-Zhuzhou-Xiangtan" golden triangle and the city chain of Jiaozhou Bay, which facilitate better gas sources and management of the projects and create an environment for sharing resources and advantages.

During the year, the Group's strategies were gradually moving towards projects of medium to large scale with its continual expansion in business scope and successful development of new projects. As the operation of Anji Xinao Gas Company Limited ("Anji Xinao") was relatively small in scale with a population of 120,000, in order to consolidate various resources of the Group, including management, financial and human resources etc., the Group decided to dispose its entire interests in Anji Xinao and re-deploy its resources into other projects. The Group planned to apply the proceeds of the disposal for use in the general working capital of the Group.

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

#### SALE OF PIPED GAS

During the year, the Group sold 45.0 million m³ and 71.6 million m³ piped gas to residential households and industrial/commercial customers respectively, representing increases of 1.4 times respectively over last year. The ratio of the sales of gas for industrial/commercial customers was 61.4% and remained about the same as in last year, laying a solid foundation for the Group's long-term revenue. As W-E will commence gas supply fully in 2004 and eliminate the restraint on gas source, the Group expects the volume of gas sales will further increase in the future. The strong increase in

natural gas sales during the year did not just come from quality new projects the Group had successfully obtained, but also from successful marketing in existing projects. The high growth in the sales of natural gas also fully reflected that the use of natural gas as a quality energy source was highly recognised by the public.

As the PRC government is getting more concerned on environmental problems, and its economy continues to grow rapidly in the coming years and thereby stimulates the property market and the business of the industrial/commercial customers, the demand for a clean energy source 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.

#### CNG vehicle gas station

The Group has started the operation of compressed natural gas ("CNG") vehicle refuelling stations ("refuelling stations") in Langfang City, Hebei Province since two years ago, and 660 taxis and 120 buses have been converted into CNG vehicles. As the price of natural gas is 20-30% lower than gasoline, it is highly welcome by bus companies and taxi owners. With two years of successful experience, the Group plans to launch gas refuelling business in our existing operation locations in 2004 and intends to build 19 refuelling stations in Langfang, Liaocheng, Bengbu and Shijiazhuang during 2004. This will have very positive impact on the Group's business as it increases further the sales of natural gas and guarantees long-term revenue in the future. The Group can utilise our existing resources, including gas stations, pipeline networks, gas sources, human resources, brand name, etc., when developing refuelling business in our operating locations. Since vehicle emission is a major source of pollution, it is believed that the PRC government will promote the conversion of CNG vehicles and accelerate the development of refuelling business. The Group expects that refuelling business will become one of the major components in our gas sales business.

#### MANAGEMENT DISCUSSION AND ANALYSIS

#### >21:57am

#### Advanced collection system for gas usage charge

The Group continues to adopt the prepaid stored-value card system for all projects. Under the system, every residential customer will receive a stored-value card and is required to prepay for the gas usage charges. This system can totally eliminate the possibility of default payment and save huge administrative expenses, thus enhancing the Group's cash flow.

#### SALE OF LPG

During the year, the Group sold 52,693 tons of LPG, increasing 21.2% over last year. The Group has been principally engaged in the sale of piped natural gas, and LPG is only sold in certain cities as a transitional gas source, as the gross profit margin and the net profit margin of LPG are relatively low. Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), Huaian Xinao Gas Company Limited ("Huaian Xinao") and Xinxiang Xinao are engaged in the wholesaling and retailing of LPG, and the sales volume of these three projects accounted for 92.1% of the total volume of LPG sales. 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, and LPG are only sold to customers not connected to natural gas or to the peripheral towns. The Group expects that the sales of LPG of these projects will gradually be replaced by piped natural gas, and the present ratio of LPG sales volume to piped natural gas sales volume in these projects were 80% to 20% on average.

The operating result of LPG turned around from a loss of RMB1,874,000 in 2002 to a profit of RMB369,000 during the year; the main reason for turning loss into profit in LPG sales was that Bengbu Xinao, by the time it was set up, was allowed to raise the selling price of LPG by 20% starting from May this year, and the LPG sales volume made by Bengbu Xinao accounted for 37.5% of the total volume of LPG sales.

#### SALE OF GAS APPLIANCES

The Group sells cooking stoves, water boilers, heaters and stored-value card meters besides providing gas connections. During the year, the Group sold a total of 50,927 cooking stoves, 10,145 water boilers and 6,640 heaters. Most of the meters produced were used by the Group in connection business.

The production capacity of the stored-value card meter factory of the Group reached 500,000 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 has dropped by 30%, and the connection costs of the Group has been substantially lowered. Besides, among the stored-value card meters sold in 2003, 8,943 were sold to other gas distributors, meaning that 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 46.8% in 2002 to 42.7% in 2003, and net profit margin decreased from 23.5% in last year to 20.9% this year. The main reason for the decreases in both gross profit margin and net profit margin was the sale of large amount of LPG during the year. As LPG will be replaced by natural gas gradually and the commencement of W-E Project will facilitate large sales volume of natural gas, the Group expects that the proportion of revenue from natural gas sales will have stable growth, and the gross and net profit margins as a whole will remain around the present level.

#### >09:53pm

#### >23:49pm

#### ADVANCED MANAGEMENT SYSTEM

The Group recognises that safe and efficient operation management is the key in gas industry. Xinao Gas has maintained excellent safety track record for the past 11 years of operations. This is achieved 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.

To enhance the standard of operational management and the efficiency of service, during the year, the Group's subsidiary Langfang Xinao Gas Company Limited ("Langfang Xinao") took the lead to use information technology systems by connecting the gas sale system, the call centre, the Geographic Information System and the Supervisory Control and Data Acquisition System. These advanced management systems help to enhance further the Group's operational management. The experience of Langfang Xinao will pave the way for the full implementation of information technology systems in the Group next year.

As in last year, we continued to collect useful opinions on pipeline installation within buildings, pipeline network construction and after-sales services from the customers by organising customer opinion campaign. Because of the continuous efforts of the Group, many of the Group's subsidiaries were awarded Advanced Unit with Safe Management during the year, and Qingdao Xinao Gas Company Limited, the Group's subsidiary in Qingdao, was awarded "Advanced Unit with Quality Management" of the year by the local government.

#### **OUTSTANDING MANAGEMENT**

Because of the excellent management of the management team, the Company continued to obtain many awards from various prominent international financial magazines during the year:

"The 200 Best Small Companies" by Forbes Global for three consecutive years;

the "Best Small Cap Company (China)" by AsiaMoney for three consecutive years;

the "Chinese Business 500" by Yazhou Zhoukan for three consecutive years;

the "Top 20 Chinese Enterprises of Revenue Growth" by Yazhou Zhoukan for two consecutive years;

the "Top 20 Chinese Enterprises of Assets Growth" by Yazhou Zhoukan for the first time; and

the "Overall Best Managed Company (China)" by AsiaMoney again this year after getting this award in 2001.

The above awards, voted by international institutional investors and analysts, prove that Xinao Gas is highly regarded by investors for its high management quality and transparency. It was not easy to obtain such achievements, but the Group's management will endeavour to maintain our outstanding performance.

#### **CUSTOMER SERVICE**

Quality customer service is the key for maintaining good and long term relations between the Company and customers. The Group is well aware of this and has devoted efforts to maintain quality service of high efficiency and safety standards. Because of our quality service, the Group's subsidiaries have won recognition and credit from local customers as well as government authorities in the cities they operate and become the model for other public utilities to follow. The best evidence is that many of the project companies have been awarded "Unit offering the highest satisfaction to customers" by local consumer councils during the year. Apart from the Group's investment ability and efficient and safe operational management, quality service has also become Xinao Gas' major competitive advantage in competing for new projects.

#### MANAGEMENT DISCUSSION AND ANALYSIS

In 2003, Bengbu Xinao, Huaian Xinao, Xinxiang Xinao and Shijiazhuang Xinao Gas Company Limited followed the footsteps of Langfang Xinao, Liaocheng Xinao Gas Company Limited and Huludao Xinao Gas Company Limited to launch the "95158" national 24-hour hotline. Our customers can simply dial 95158 to access their local 24- hour customer service centre and communicate with us conveniently. In case of emergency, we uphold our promise to arrive at the site within 20 minutes to carry out repair work. Our emergency-repair vehicles are approved by the local governments to be equipped with sirens similar to those on police cars, so that we will be able to arrive at the site immediately in any emergency.

In addition, the Group's subsidiaries followed the Group's unified requirements: they issued leaflets of "Gas Usage Safety Standards" to our customers and conducted safety checks twice a year on pipeline networks and customers' gas appliances. These measures not only prevented potential safety problems and embodied the principle of "prevention is always better than cure," but also helped to enhance relationship between the Group and the customers. The Group's safety policies guaranteed that customers would not be affected by pipeline network problems when using natural gas, and thus increased the trust of our customers.

#### **HUMAN RESOURCES**

We believe that quality human resources are the key to the Group's continuous success and future development, so we uphold the principle of "based on people" and put great emphasis on recruitment and internal training.

Every year, we recruit high-calibre undergraduates from renowned universities all over the PRC as well as experienced professionals in the industry or from overseas according to our development needs. All new staff will be given internal training and be deployed to different departments and subsidiaries 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 also encourages staff to have lifelong learning. We have sponsored some employees to study for MBA or to attend other related technical courses in renowned universities, so as to enhance their competence, technical skills and quality. The introduction of the gas safety training system from the UK by the Group during the year will also improve the professionalism and occupational knowledge of the staff and facilitate them to provide better service.

The Group also frequently invites university professors and management experts to give in-house training courses to ensure our staff can work with practical theory. Work reviews and assessments with staff are also held regularly to rectify any problems at an early stage. Forums, mailbox to the general manager and staff representative meetings provide other platforms for staff to communicate with the management, so that the Group can make appropriate adjustments and understand the frontline problems.

In addition, in order to have accurate assessment of staff performance and enhance the Group's business, during the year, the Group cooperated with the renowned Beijing H&J Vanguard Management Consulting Company Limited for a human resources project focusing on promoting in the subsidiaries a recruitment standard qualification system, a balanced scorecard system for assessment and a salary points system. The implementation of the project has facilitated the Group to increase its business performance.

Furthermore, the Company regularly invites family members of the employees to attend various functions, such as seminars or dinner parties, and give consolation to employees who are sick, getting married, etc., so as to strengthen communications and affections between staff and the Company, and to enhance the sense of belonging of staff towards the Group.

As at 31 December 2003, the Group had 6,184 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 2003, the Group's cash on hand was RMB487,129,000 (2002: 631,536,000), and its total bank and other borrowings amounted to RMB1,111,926,000 (2002: 467,428,000). Its net gearing ratio, i.e. the ratio of net debt to equity, was 54.9% (2002: zero). The reason for the increase of borrowings of the Group was that the Group acquired not just assets, but also bank and other borrowings from the PRC JV partners, when acquiring large scale projects, and these assets and liabilities were injected into the joint ventures. However, the assets and liabilities ratios of these large scale projects are healthy, and they usually have high revenue and earning capacity. Therefore, the increase in liabilities is normal during acquisition process. When the gas penetration rates increase in these project companies, their liabilities will decrease gradually.

During the year, since the annual interest rate continued to fall and stayed at low levels, Xinao Gas, in order to cope with the Group's future development, obtained a three-year, unsecured syndicated loan of US\$45 million in August 2003. Also, the Company had a share placement with net proceeds of HK\$456,000,000 in February 2004. It is expected that the loan and funds, when aggregated with the Group's internal resources and bank borrowings, are sufficient to finance the future operational and capital expenditure.

#### **BORROWINGS STRUCTURE**

As at 31 December 2003, the Group's total bank and other borrowings amounted to RMB1,111,926,000 (2002: RMB467,428,000), including a three-year unsecured syndicated loan of US\$30 million signed on September 2002 (equivalent to RMB248,040,000) and another three-year unsecured syndicated loan of US\$45 million signed on August 2003 (equivalent to RMB372,060,000), which bear interest at floating rates. The remaining bank and other borrowings are denominated in Renminbi granted at fixed interest rates ranging between 4.5% and 5.5% by local banks and other companies in the PRC to the project companies as their working capital and operational expenditure. Except for the loan amount of RMB33,173,000

that has to be secured by assets with the net asset value of approximately RMB79,972,000, all of the other loans are unsecured. Short-term loans amounted to RMB541,390,000 while the remaining were long-term loans falling due after more than a 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 exposure except for the two three-year syndicated loans of total amount of US\$75,000,000. The Group had signed interest rate and exchange rate swap agreements for the syndication loans of US\$75,000,000 to fix the interest rates and exchange rates. As the interest rates remained low at the moment, the Group's management believed that changing the floating interest rates into fixed interest rates at the present level would be beneficial to the Company.

#### **CONTINGENT LIABILITIES**

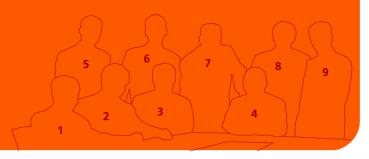
During the year, the Group had released guarantee to a bank in respect of banking facilities granted to a third party to the extent of RMB39,500,000. As at 31 December 2003, the Group did not have any contingent liabilities (2002: RMB39,500,000).

## DIRECTORS AND SENIOR MANAGEMENT

>10:05am

>15:45pm





>21:30pm

- 1. ZHAO JINFENG
- 2. CHEUNG YIP SANG
- 3. YANG YU
- 4. WANG YUSUO
- 5. CHEN JIACHENG
- 6. CHENG CHAK NGOK
- 7. QIAO LIMIN
- 8. JIN YONGSHENG
- 9. YU JIANCHAO



## DIRECTORS AND SENIOR MANAGEMENT

### >10:25am

### **EXECUTIVE DIRECTORS**

Mr. WANG Yusuo, aged 39, 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 18 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. Mr. Wang is currently a committee member of the Ninth Chinese People's Political Consultative Conference and a Vice Chairman of the Tenth Executive Committee of the All-China Federation of Industry and Commerce. He has won various awards, including Hebei's Top 10 Outstanding Young Persons and Outstanding Entrepreneurs in China. Mr. Wang is the spouse of Ms. Zhao Baoju.

Mr. YANG Yu, aged 46, 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. Prior to joining the Group in 1998, he worked at the China Oil and Gas Pipeline Bureau. He graduated from the Petroleum and Industrial Ministry Pipeline Bureau Technical Institute in 1985 and obtained a master's degree in banking from Renmin University of China in 1999. Mr. Yang has over 18 years of experience in the PRC gas industry.

Mr. CHEN Jiacheng, aged 41, is an executive Director and 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 and a master's degree in business administration from Tsing Hua University. Mr. Chen has over 11 years of experience in business administration and management.

Mr. ZHAO Jinfeng, aged 36, is an executive Director and deputy general manager of the Company responsible for assisting the chief executive officer in managing and implementing the Group's investment projects in the PRC, supervising the safety of the Group's projects, securing gas supply and exploring the piped gas market in the PRC. He graduated from the Management Institute of the Ministry of Agriculture and worked at Langfang City Electrical Company as an economist for resources management prior to joining the Group in 1993. Mr. Zhao has over 11 years of experience in the PRC gas industry. Mr. Zhao is Ms. Zhao Baoju's brother.

Mr. QIAO Limin, aged 45, 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 and was an assistant lecturer at Langfang City Health College. He graduated from Baotou Education College in 1984. Mr. Qiao has over 11 years of experience in managing gas projects and supervising gas supply operations and safety.

Mr. JIN Yongsheng, aged 40, is an executive Director and deputy general manager of the Company responsible for overseeing legal and administrative matters and investors' relationship of the Group. He graduated from the Tianjin University of Finance and Economics in 1986, specializing in finance. Prior to joining the Group in 1996, he was an assistant professor in Management Institute of the Ministry of Agriculture. Mr. Jin is a qualified practising lawyer in the PRC and has over 14 years of experience in legal practice.

Mr. YU Jianchao, aged 35, is the finance Director of the Company and has joined the Group since January 1998. He graduated from the Hebei Economics and Finance College in 1993 and worked as the chief accountant for a number of foreign enterprises, including GSK Industry (China) Co., Ltd. and Nissin COFCO Foods Co., Ltd. prior to joining the Group. Mr. Yu has over 11 years of experience in accounting and finance.

Mr. CHEUNG Yip Sang, aged 37, is an executive Director and deputy general manager of the Company responsible for 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. Prior to joining the Group in February 1998, he was the sales manager of Eastern Guangdong Region of Shantou Jiadan Beer Company Limited. Mr. Cheung is experienced in marketing and sales.

Mr. CHENG Chak Ngok, aged 33, is an executive Director, financial controller and company secretary of the Company responsible for accounting and financial management as well as investor relations. Prior to joining the Group in November 2000, he worked at an international accounting firm and also worked as the chief accountant of a freight forwarding company. He graduated from Manchester Metropolitan University with a first class honours bachelor's degree in accounting and finance. He is a fellow member of the Association of Chartered Certified Accountants in England, and also an associate member of the Hong Kong Society of Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators in England.

### **NON-EXECUTIVE DIRECTOR**

Ms. Zhao Baoju, aged 38, is the co-founder and a non-executive Director. She has over 11 years of experience in investing in gas fuel projects in the PRC. She graduated from the Hebei Medical College Nursing School in 1987 and the Chinese Language Faculty of Capital Normal University in 1998. Ms. Zhao is the spouse of Mr. Wang Yusuo.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Guangtian, aged 40, 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 21 years of experience in financial and administrative management. He is currently the deputy general manager of Hebei Enterprises Limited, 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.

Mr. Xu Liang, aged 63, 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. He has worked at the North China Municipal Engineering Design and Research Institute for 38 years and is now their consultant and chief engineer.

### SENIOR MANAGEMENT

Mr. Ju Xilin, aged 46, is the deputy general manager of the Company and general manager of Henan areas responsible for market development and operation. 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 21 years of experience in operational management.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Han Jishen, aged 39, is a deputy general manager of the Company and general manager of Hunan areas responsible for market development and operation. 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 Huludao Xinao. Mr. Han has over 11 years of experience in the gas fuel industry in the PRC.

Mr. Liang Zhiwei, aged 40, is the Chief Economist of the Group responsible for internal management and operation. 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.

Mr. Wang Dongzhi, aged 35, 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 treasury and cost control.

### **DIRECTORS' REPORT**

The Directors have pleasure in submitting to shareholders their annual report and the audited financial statements for the year ended 31 December 2003.

### 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 2003 are set out in the consolidated income statement on page 52.

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 five years are set out on page 21.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB1,155 million has been incurred in acquiring property, plant and equipment.

During the year, the Group revaluated its properties, resulting in a revaluation surplus amounting to RMB28 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 the share capital of the Company are set out in note 28 to the financial statements. There was no movement in share capital during the year.

### **RESERVES**

Details of movements during the year in the reserves of the Company and the Group are set out in note 30 to the financial statements.

### **BANK AND OTHER LOANS**

Details of bank and other loans of the Group are set out in note 26 to the financial statements.

### **CHARITABLE DONATIONS**

Charitable donations by the Group for 2003 amounted to RMB1,974,000 (2002: RMB1,060,000).

## DIRECTORS'

### **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)

Chen Jiacheng

(appointed on 21 May 2003)

Zhao Jinfeng Qiao Limin

Jin Yongsheng

Yu Jianchao

Cheung Yip Sang

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 Wang Yusuo, Chen Jiacheng and Wang Guangtian and Ms. Zhao Baoju 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 is of an initial term of three years commencing 1 March 2001, except that of Messrs Cheung Yip Sang and Cheng Chak Ngok, appointed on 10 April 2002 with an initial term commencing on the same day, and Mr. Chen Jiacheng, appointed on 21 May 2003 with an initial term commencing on the same day. The initial term of each service agreement expires on 29 February 2004, and 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. The non-executive Director and each of the independent non-executive Directors have signed a new service agreement for a term of three years, commencing on 1 March 2004 and expiring on 28 February 2007, and each service agreement shall continue thereafter until terminated by either party giving to the other not less than six months' prior written notice.

### **DISCLOSURE OF INTERESTS**

### Directors' interests or short positions in shares and in share options

As at 31 December 2003, the interest and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

					Interests in underlying shares		Approximate percentage of the
Name of Director	Capacity	Interes Personal interests	Corporate interests	Total interests in shares	pursuant to share options	Aggregate interests	Company's total issued share capital
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	3,044,000	408,000,000 (Note 1)	411,044,000	2,300,000	413,344,000	56.08%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	3,044,000	408,000,000 (Note 1)	411,044,000	2,300,000	413,344,000	56.08%
Mr. Yang Yu	Beneficial owner	-	-	-	3,350,000	3,350,000	0.45%
Mr. Chen Jiacheng	Beneficial owner	-	-	-	2,300,000	2,300,000	0.31%
Mr. Zhao Jinfeng	Beneficial owner	-	-	-	2,200,000	2,200,000	0.30%
Mr. Qiao Limin	Beneficial owner	-	-	-	2,050,000	2,050,000	0.28%
Mr. Jin Yongsheng	Beneficial owner	-	-	-	2,100,000	2,100,000	0.28%
Mr. Yu Jianchao	Beneficial owner	-	-	-	2,100,000	2,100,000	0.28%
Mr. Cheung Yip Sang	Beneficial owner and interest of spouse	-	-	-	2,250,000 (Note 2)	2,250,000	0.31%
Mr. Cheng Chak Ngok	Beneficial owner	-	-	-	600,000	600,000	0.08%

### Note:

- The two references to 408,000,000 shares relate to the same block of shares. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
- Out of 2,250,000 underlying shares, 250,000 underlying shares were granted to Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang. Mr. Cheung Yip Sang is taken to be interested in the underlying shares held by his spouse under the SFO.

## DIRECTORS' REPORT

### DISCLOSURE OF INTERESTS (CONT'D)

### Directors' interests or short positions in shares and in share options (Cont'd)

Details of the directors' interests in share options granted by the Company are set out under the heading "Directors' rights to acquire shares".

Save as disclosed above, as at 31 December 2003, the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

### Directors' rights to acquire shares

Pursuant to the Company's share option schemes, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

				Number of shares subject to outstanding options as at	Number of shares subject to outstanding options as at	Approximate percentage of the Company's total issued
Name of Director	Date of Grant	Exercise period	Exercise Price	1 January 2003	31 December 2003	share capital
Mr. Wang	14.02.2003	15.08.2003 –	2.265	-	2,300,000	0.31%
	(Note 5)	14.02.2013	(Note 4)			
Ms. Zhao	14.02.2003	15.08.2003 –	2.265	-	2,300,000	0.31%
	(Note 5)	14.02.2013	(Note 4)		(Note 2)	
Mr. Yang Yu	31.01.2002	01.08.2002 –	2.625	2,400,000	-	-
		31.01.2012			(Note 3)	
	14.02.2003	15.08.2003 –	2.265	-	3,350,000	0.45%
	(Note 5)	14.02.2013	(Note 4)			
Mr. Chen Jiacheng	31.01.2002	01.08.2002 -	2.625	1,700,000	-	-
		31.01.2012			(Note 3)	
	14.02.2003	15.08.2003 –	2.265	-	2,300,000	0.31%
	(Note 5)	14.02.2013	(Note 4)			
Mr. Zhao Jinfeng	31.01.2002	01.08.2002 – 31.01.2012	2.625	1,500,000	– (Note 3)	-
	14.02.2003	15.08.2003 –	2.265	-	2,200,000	0.30%
	(Note 5)	14.02.2013	(Note 4)			

### DISCLOSURE OF INTERESTS (CONT'D)

Directors' rights to acquire shares (Cont'd)

				Number of	Number of	Approximate
				shares subject	shares subject	percentage of
				to outstanding	to outstanding	the Company's
				options as at	options as at	total issued
Name of Director	Date of Grant	Exercise period	Exercise Price	1 January 2003	31 December 2003	share capital
Mr. Qiao Limin	31.01.2002	01.08.2002 –	2.625	1,500,000	_	_
		31.01.2012			(Note 3)	
	14.02.2003	15.08.2003 –	2.265	-	2,050,000	0.28%
	(Note 5)	14.02.2013	(Note 4)			
Mr. Jin Yongsheng	31.01.2002	01.08.2002 –	2.625	1,500,000	_	_
3 3		31.01.2012			(Note 3)	
	14.02.2003	15.08.2003 –	2.265	_	2,100,000	0.28%
	(Note 5)	14.02.2013	(Note 4)			
Mr. Yu Jianchao	31.01.2002	01.08.2002 –	2.625	1,500,000	_	_
		31.01.2012			(Note 3)	
	14.02.2003	15.08.2003 –	2.265	_	2,100,000	0.28%
	(Note 5)	14.02.2013	(Note 4)			
Mr. Cheung Yip Sang	31.01.2002	01.08.2002 –	2.625	1,500,000	_	_
J p J		31.01.2012		, , , , , , , , , , , , , , , , , , , ,	(Note 3)	
	14.02.2003	15.08.2003 –	2.265	_	2,250,000	0.31%
	(Note 5)	14.02.2013	(Note 4)		(Note 6)	
Mr. Cheng Chak Ngok	14.02.2003	15.08.2003 –	2.265	_	600,000	0.08%
	(Note 5)	14.02.2013	(Note 4)		222,000	

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

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.

### DISCLOSURE OF INTERESTS (CONT'D)

Directors' rights to acquire shares (Cont'd)

#### Note:

- The vesting period of the share options is from the date of the grant until the commencement of the exercise period. 1.
- 2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr.
- 3. All the options to subscribe shares granted to certain directors and employees on 31 January 2002 were cancelled during the year.
- The closing price of the shares immediately before the date on which the options were granted was HK\$2.25. 4.
- 5. On 14 February 2003, the Directors had granted options to subscribe for an aggregate of 32,300,000 shares of the Company under the share option scheme, representing approximately 4.38% of the issued share capital of the Company as at 31 December 2003, out of which 19,000,000 share options were granted to the Directors and 13,300,000 share options were granted to the employees of the Group. As at 31 December 2003, all of the outstanding options under the share option scheme remained outstanding.
- Out of 2,250,000 underlying shares, 250,000 underlying shares were granted to Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang. Mr. Cheung Yip Sang is taken to be interested in the underlying shares held by his spouse under the SFO.

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

					Interests in underlying		Approximate percentage of
Name of		Personal	sts in shares	Total interests	shares pursuant to		the Company's total issued
shareholder	Capacity	interests	Corporate interests	in shares	share options	Aggregate interests	share capital
					отта о разота		
Easywin Enterprises Limited	Beneficial owner	-	408,000,000 (Note 1)	408,000,000	-	408,000,000	55.36%
Mr. Wang	Beneficial owner & interest of controlled corporation	3,044,000	408,000,000 (Note 1)	411,044,000	2,300,000	413,344,000	56.08%
Ms. Zhao	Interest of spouse & interest of controlled corporation	3,044,000	408,000,000 (Note 1)	411,044,000	2,300,000 (Note 2)	413,344,000	56.08%
Wellington Management Company, LLP	Investment manager	-	58,862,000	58,862,000	-	58,862,000	7.99%
The Capital Group Companies, Inc.	Investment manager	-	48,257,000	48,257,000	-	48,257,000	6.55%

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#### Notes:

- 1. The three references to 408,000,000 shares relate to the same block of shares. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
- 2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

Save as disclosed above, as at 31 December 2003, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company.

Save for the shareholders as disclosed herein, the directors are not aware of any persons who, as at 31 December 2003, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

### 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 indirect 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 Langfang 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 RMB330,000 and RMB436,000 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 RMB1,039,000 plus a reimbursement of management fee of RMB264,000 per annum. The contract term is for four years commencing from 1 January 2001.

On 6 January 2003, Haining Xinao Gas Company Limited ("Haining Xinao"), the indirect non-wholly-owned subsidiary of the Company, signed a contract without a fixed term with Haining Wan Tong Gas Company Limited ("Haining Wan Tong"), the PRC JV partner of Haining Xinao, for a gas station with annual rent of RMB50,000. Haining Xinao also paid interest expenses RMB66,000 to Haining Wan Tong.

On 1 April 2003, Haining Xinao signed contract for a term of 1 year with Haining Min Tai Coal Gas Company ("Haining Coal Gas"), the PRC JV partner of Haining Xinao, for an office building with annual rent of RMB120,000. During the year, Haining Xinao also bought liquefied petroleum gas ("LPG") from Haining Coal Gas for a consideration of RMB737,000.

On 2 June 2003, Xinao Pinggu Investment Limited ("Pinggu BVI"), the indirect wholly-owned subsidiary of the Company, entered into the shares transfer agreement with Pinggu County LPG Company ("Pinggu LPG"), the PRC JV partner of Beijing Xinao Jinggu Gas Company Limited ("Jinggu Xinao"), the indirect non-wholly-owned subsidiary of the Company, whereby Pinggu BVI acquired 20% interest in Jinggu Xinao for a consideration of RMB1,980,000. Upon the completion of the acquisition, Pinggu BVI's equity interests in Jinggu Xinao increased from 70% to 90%, thereby increasing the Group's share of profit in Jinggu Xinao by 20%.

## DIRECTORS'

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

On 19 June 2003, Xinao Zhejiang Investment Limited ("Zhejiang BVI"), the indirect wholly-owned subsidiary of the Company, entered into the shares transfer agreement with Anji County Pipeline LPG Company Limited ("Anji Pipeline"), a subsidiary of Anji County Fengning LPG Company ("Anji Fengning"), which is the PRC JV partner of Anji Xinao Gas Company Limited ("Anji Xinao"), the indirect non-wholly-owned subsidiary of the company, whereby Anji Pipeline acquired 90% interests in Anji Xinao. Zhejiang BVI has also on the same day entered into the supplemental agreement with Anji Fengning and Anji Pipeline, setting out the detailed arrangements in connection with the disposal. The consideration for the disposal was RMB3,129,400. After the disposal, Zhejiang BVI has no interest in Anji Xinao. The Group re-deploys its resources, including management, financial and human resources, into other projects, and such disposal can enable the Group to obtain better economies of scale in operation and investment.

On 19 September 2003, Beijing Xinao Gas Company Limited ("Beijing Xinao"), the indirect non-wholly-owned subsidiary of the Company, entered into the Sale and Purchase agreement with Beijing Xinao Guangxia Property Development Company Limited ("Beijing Guangxia") (note 1) to purchase a property, which is used as Beijing Xinao's office. The consideration is RMB9,590,000.

On 19 September 2003, Xinao Jiangsu Investment Limited ("Jingsu BVI"), the indirect wholly-owned subsidiary of the Company, entered into the shares transfer agreement with Shanghai Yanxin Enterprise Investment Company Limited ("Shanghai Yanxin"), the PRC JV partner of Yancheng Xinao Gas Company Limited ("Yancheng Xinao"), the indirect non-wholly-owned subsidiary of the Company, whereby Jiangsu BVI acquired 20% interests in Yancheng Xinao. The consideration for the acquisition was RMB2,380,000. Upon the completion of the acquisition, Jiangsu BVI's equity interests in Yancheng Xinao increased from 80% to 100%, thereby increasing the Group's share of profit in Yancheng Xinao by 20%.

During the year, Xinao (China) Gas Development Company Limited ("Xinao Gas Development"), the indirect wholly-owned subsidiary of the Company, provided gas connection services to Langfang Xincheng Property Development Company Limited ("Xincheng Property") (note 1) with the contract sum of RMB1,920,000.

During the year, the subsidiaries of the Company, including Xinao Gas Development, Xinghua Xinao Gas Company Limited ("Xinghua Xinao"), Changzhou Xinao Gas Company Limited ("Changzhou Xinao"), Langfang Xinao Gas Equipment Company Limited ("Xinao Gas Equipment") and Langfang Xinao Software Technology Company Limited ("Xinao Software"), acquired 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 the distribution of natural gas. The total considerations of the contracts are RMB10,702,000.

During the year, Xinao Gas Development purchased heaters from Xinao Group International Economic Development Company Limited ("Xinao Group International") (Note 1) for a consideration of RMB42,000.

During the year, Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), the indirect non-wholly-owned subsidiary of the Company, provided gas connection services to Enric Bengbu Compressed Machinery Company Limited ("Enric Bengbu") (Note 1) with the amount of RMB315,000. Bengbu Xinao also sold LPG to and purchased repair materials from Enric Bengbu for the considerations of RMB41,000 and RMB42,000 respectively. Enric Bengbu purchased LPG from and sold repair materials to Bengbu Xinao Gas Development Company Limited ("Bengbu Xinao Development"), the indirect non-wholly-owned subsidiary of the Company, and Xinao Gas Development with the considerations of RMB34,000 and RMB51,000 respectively.

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

During the year, Changsha Xinao Gas Company Limited ("Changsha Xinao"), the indirect non-wholly-owned subsidiary of the Company, purchased materials from Changsha Gas Company, the PRC JV partner of Changsha Xinao, with a consideration of RMB152,000.

During the year, Anji Xinao, the indirect non-wholly-owned subsidiary of the Company, purchased LPG from Anji Fengning, the PRC JV partner of Anji Xinao, with a consideration of RMB222,000.

During the year, Changzhou City Wujin Gas Company ("Changzhou Gas"), Lianyungang City Construction Investment Company Limited ("Lianyungang Construction"), Kaifeng City Development Investment Company Limited ("Kaifeng Development"), Xiangtan City Coal Gas Company ("Xiangtan Coal Gas"), the PRC JV partners of the Company's indirect non-wholly-owned subsidiaries Changzhou Xinao, Lianyungang Xinao Gas Company Limited ("Lianyungang Xinao"), Kaifeng Xinao Gas Company Limited ("Kaifeng Xinao") and Xiangtan Xinao Gas Company Limited ("Xiangtan Xinao") respectively, had loans advanced to Changzhou Xinao, Lianyungang Xinao, Kaifeng Xinao and Xiangtan Xinao with the loan amounts of RMB29,000,000, RMB8,000,000 and RMB4,472,000 respectively.

During the year, the Company's indirect non-wholly-owned subsidiaries of Huaian Xinao Gas Company Limited ("Huaian Xinao"), Xinxiang Xinao Gas Company Limited ("Xinxiang Xinao"), Changzhou Xinao, Kaifeng Xinao and Xiangtan Xinao paid loan interest of RMB60,000, RMB278,000, RMB658,000, RMB86,000 and RMB51,000 to Huaian City Gas Company ("Huaian Gas"), Xinxiang City Gas Company ("Xinxiang Gas"), Changzhou Gas, Kaifeng Development and Xiangtan Coal Gas respectively. Huaian Gas and Xinxiang Gas is the PRC JV partner of Huaian Xinao and Xinxiang Xinao 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, Beijing Guangxia, Xincheng Property, Xinao Machinery, Enric Bengbu and Xinao Group International are controlled by Mr. Wang, the Chairman of the Company.
- 2. All subsidiaries of the Company in the PRC, PRC JV partners and related parties mentioned in note 1 have names in Chinese only, and the English names used here are for reference only.

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.

### POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 41 to the financial statements.

### CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share options as set out in Directors' rights to acquire shares, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2003.

### DIRECTORS' REPORT

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2003, 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.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

### **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, investors, customers, employees as well as the industry watchdog. The Group has the Executive Committee to review major investment projects of the Group, give decisive advice, draw up annual operation plans, financial budgets and large financing packages, review proposals on appointments and removals, etc. The Group also has the Strategic Committee to analyse and study the macro economy and industry policies, establish strategies and long term goals for the Group. Both Executive Committee and Strategic Committee are the decision making cores of the Group, they review the proposals raised by each other to ensure that the proposals are tactical and executable. The Group also has the Supervisory Committee, an internal supervisory division, responsible for risks management and stringent internal audit on decision and regulation systems, operations, management and performance of the Group to ensure that the Group operates on the right track.

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 obtained 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 2003. Two Audit Committee meetings were held during the financial year.

#### AUDITORS

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, 20 April 2004

### 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

### Deloitte Touche Tohmatsu

### TO THE SHAREHOLDERS OF XINAO GAS HOLDINGS LIMITED 新奧燃氣控股有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 52 to 105 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **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 2003 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**

### **Consolidated Income Statement**

For the year ended 31 December 2003

		2003	2002
	NOTES	RMB'000	RMB'000
Turnover	4	878,055	544,492
Cost of sales		(502,693)	(289,805)
Gross profit		375,362	254,687
Other operating income	5	30,734	17,391
Selling expenses		(21,524)	(11,522)
Administrative expenses		(137,704)	(77,791)
Other operating expenses		(14,239)	(4,504)
Profit from operations	6	232,629	178,261
Professional and other expenses incurred in connection			
with the listing of the Company's shares on the Main Board		-	(5,421)
Finance costs	8	(30,995)	(16,782)
Share of results of an associate		(94)	_
Share of results of jointly controlled entities		(2,298)	-
Profit before taxation		199,242	156,058
Income tax expenses	9	(2,957)	(12,324)
Profit before minority interests		196,285	143,734
Minority interests		(13,195)	(15,818)
Profit for the year		183,090	127,916
Dividends	10	-	-
Earnings per share	11		
Basic		24.8 cents	18.0 cents
Diluted		24.6 cents	N/A

### **Consolidated Balance Sheet**

At 31 December 2003

	NOTES	2003 RMB'000	2002 RMB'000
Non-current assets Property, plant and equipment Intangible assets Negative goodwill Interest in an associate Interests in jointly controlled entities Investment in securities	12 13 14 16 17 18	2,029,615 78,329 (4,120) 10,394 22,105 1,000	905,255 21,808 (1,756) – 2,500
		2,137,323	927,807
Current assets Inventories Trade and other receivables Amounts due from customers for contract work Amount due from an associate Amount due from a jointly controlled entity Amounts due from related companies Bank balances and cash	19 20 21 22	72,950 269,216 108,284 3,180 265 19,578 487,129	47,023 98,392 49,883 - - 15,724 631,536
		960,602	842,558
Current liabilities Trade and other payables Amounts due to customers for contract work Amount due to a jointly controlled entity Amounts due to related companies Taxation payable Bank and other loans – due within one year	23 21 24 26	308,798 120,194 750 60,332 1,321 541,390	181,575 45,636 - 18,860 8,754 202,016
		1,032,785	456,841
Net current (liabilities) assets		(72,183)	385,717
Total assets less current liabilities		2,065,140	1,313,524
Non-current liabilities Bank and other loans – due after one year Deferred taxation	26 27	570,536 17,058	265,412 10,618
		587,594	276,030
		1,477,546	1,037,494
Capital and reserves Share capital Reserves	28 30	78,122 1,059,977	78,122 861,355
		1,138,099	939,477
Minority interests		339,447	98,017
		1,477,546	1,037,494

The financial statements on pages 52 to 105 were approved and authorised for issue by the Board of Directors on 20 April 2004 and are signed on its behalf by:

Wang Yusuo DIRECTOR

Yu Jianchao **DIRECTOR** 

### **Balance Sheet**

At 31 December 2003

	NOTES	2003 RMB'000	2002 RMB'000
	NOTES	KIVIB 000	KIVIB 000
Non-current assets			
Interests in subsidiaries	15	1,280,912	737,726
Current assets			
Deposits and prepayments		63	155
Bank balances and cash		16,983	166,084
		17,046	166,239
Current liabilities			
Amounts due to subsidiaries	25	34,126	7
Bank and other loans – due within one year	26	82,680	_
		116,806	7
Net current (liabilities) assets		(99,760)	166,232
Total assets less current liabilities		1,181,152	903,958
Non-current liabilities			
Bank and other loans – due after one year	26	537,420	248,040
Net assets		643,732	655,918
Capital and reserves			
Share capital	28	78,122	78,122
Reserves	30	565,610	577,796
Shareholders' funds		643,732	655,918

Wang Yusuo DIRECTOR Yu Jianchao DIRECTOR

### **Consolidated Statement of Changes in Equity**

For the year ended 31 December 2003

	2003 RMB'000	2002 RMB'000
Total equity at 1 January	939,477	452,661
Profit for the year  Net surplus arising on valuation of land and buildings	183,090	127,916
not recognised in the consolidated income statement Issue of shares on placing Share issue expenses	15,532 - -	16,353 355,630 (13,083)
Total equity at 31 December	1,138,099	939,477

### **Consolidated Cash Flow Statement**

For the year ended 31 December 2003

	NOTEC	2003	2002
	NOTES	RMB'000	RMB'000
Operating activities			
Profit before taxation		199,242	156,058
Adjustments for:			
Share of results of an associate		94	_
Share of results of jointly controlled entities		2,298	-
Loss on disposal of property, plant and equipment		3,097	1,196
Deficit on revaluation of property, plant and equipment		_	113
Depreciation of property, plant and equipment		52,371	23,853
Allowance for bad and doubtful debts		918	1,103
Allowance for inventories		1,260	_
Amortisation of intangible assets		3,706	906
Gain on disposal of a subsidiary		(718)	_
Release of negative goodwill		(226)	(96)
Interest income		(3,093)	(5,189)
Interest expenses		24,034	13,851
Operating cash flows before movements in working capital		282,983	191,795
Increase in inventories		(12,371)	(6,927)
Increase in trade and other receivables		(102,479)	(17,272)
Increase in amounts due from customers for contract work		(58,401)	(38,105)
Increase in amount due from an associate		(3,180)	_
Increase in amount due from a jointly controlled entity		(265)	_
Increase in amounts due from related companies		(5,088)	(12,609)
Increase in trade and other payables		43,354	52,139
Increase in amounts due to customers for contract work		74,558	29,272
Increase in amount due to a jointly controlled entity		750	_
(Decrease) increase in amounts due to related companies		(13,705)	5,200
Cash generated from operating activities		206,156	203,493
Interest received		3,093	5,189
Interest paid		(24,034)	(13,851)
PRC enterprise income tax paid		(10,390)	(6,495)
Net cash from operating activities		174,825	188,336

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### **Notes to the Financial Statements**

For the year ended 31 December 2003

### 1. GENERAL

The Company is an exempt company incorporated in the Cayman Islands under the Companies Law and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Easywin Enterprises Limited ("Easywin"), a limited company incorporated in the British Virgin Islands.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 42.

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA.

### SSAP 12 (Revised) Income Taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this standard has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required. Details of the revised accounting policy are set out in note 3.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for revaluation of 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 represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity 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, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

### Goodwill (Cont'd)

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. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented as a separate intangible asset.

On disposal of a subsidiary, associate or jointly controlled entity, 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.

### Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

Negative goodwill arising on acquisitions on or after 1 January 2001 is presented as deduction from asset. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

### 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.

### Notes to the Financial Statements

For the year ended 31 December 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 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 assets under construction and is stated at cost. Cost comprises directly attributable 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.

### Further winds of annuation

### Exclusive rights of operation

Exclusive rights of operation represent the cost of acquiring rights to operate gas pipeline infrastructure and provision of piped gas business in various cities of the PRC. The exclusive rights of operation is amortised over the respective business operation period.

### Investments in subsidiaries

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

### Interest in associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in associate is stated at the Group's share of the net assets of the associate plus the goodwill in so far as it has not already been amortised to income, less any identified impairment loss.

### Jointly controlled entities

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.

### Investment in securities

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary. Other investments are measured at fair value, with unrealised gains and losses included in the net profit or loss for the period.

### **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.

### Notes to the Financial Statements

For the year ended 31 December 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 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 at 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.

#### 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.

### Incentive subsidies

Incentive subsidies are recognised when relevant approval has been obtained.

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### **Operating leases**

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

### 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 recorded 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").

### Notes to the Financial Statements

For the year ended 31 December 2003

### 4. TURNOVER

	Turnover comprises the following:		
	Gas connection fees	516,468	330,915
	Sales of piped gas	185,720	73,588
	Distributions of bottled liquefied petroleum gas	161,402	130,445
	Sales of gas appliances	14,465	9,544
		878,055	544,492
5.	OTHER OPERATING INCOME		
		2003	2002
		RMB'000	RMB'000
	Other operating income comprises the following:		
	Compensation received (note a)	8,000	-
	Incentive subsidies (note b)	7,356	5,208
	Interest income	3,093	5,189
	Income from rented premises under operating leases	2,011	1,805
	Repair and maintenance income	1,267	812
	Management fee income	264	264
	Pipeline transmission income	1,168	423
	Release of negative goodwill	226	96
	Gain on disposal of a subsidiary	718	-
	Others	6,631	3,594

2003

RMB'000

30,734

17,391

2002

RMB'000

### Notes:

<sup>(</sup>a) Under a memorandum signed between the joint venture partners of 蚌埠新奥燃氣有限公司 Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), a subsidiary of the Company, Bengbu Xinao is entitled to receive compensation from the PRC minority shareholder for the operating loss incurred in running the liquefied petroleum gas business due to the delay in obtaining the approval of the increment in selling price from the local government authority. During the year, compensation amounting to RMB8,000,000 was received from the PRC minority shareholder.

# (b) Included in incentive subsidies is a refund of part of the income tax paid from the relevant PRC government authorities as an incentive for the investments in Langfang, the PRC, amounting to RMB4,098,000 (2002: RMB5,208,000 applied by Miyun Xinao Gas Company Limited, Langfang Xinao Gas Company Limited and Xinao Langfang Investment Limited, subsidiaries of the Company). The application was approved by the relevant government authorities. The remaining represented refunds of various taxes as incentives by the government authorities in various cities of the PRC. All incentives were recorded in the year when the approval was obtained.

### 6. PROFIT FROM OPERATIONS

TROTT TROM OF ENAMONS	2003 RMB'000	2002 RMB'000
Profit from operations has been arrived at after charging:		
Amortisation of intangible assets included in other operating expenses	3,706	906
Auditors' remuneration	1,334	1,105
Depreciation and amortisation of property, plant and equipment	52,371	23,853
Deficit on revaluation of property, plant and equipment	-	113
Loss on disposal of property, plant and equipment	3,097	1,196
Minimum lease payments under operating leases in respect of land and buildings	3,769	1,914
Allowance for bad and doubtful debts	918	1,103
Allowance for inventories	1,260	-
Research and development expenses	2,889	1,678
Staff costs	87,506	47,246
Less: Amount capitalised under construction in progress	(5,427)	(5,407)
	82,079	41,839

### Notes to the Financial Statements

For the year ended 31 December 2003

### 7. REMUNERATION OF DIRECTORS AND EMPLOYEES

	2003	2002
	RMB'000	RMB'000
Directors		
Fees	241	191
Salaries and other benefits	5,056	4,698
Retirement benefits scheme contributions	28	21
	5,325	4,910

The emoluments of the directors were within the following bands:

	2003 RMB'000	2002 RMB'000
Nil to HK\$1,000,000 HK\$1,000,001 to HK\$1,500,000	11 1	10

The amounts disclosed above include directors' fees of RMB179,000 (2002: RMB127,000) payable to independent non-executive directors. None of the directors waived any emoluments during the year.

### **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:

	2003	2002
	RMB'000	RMB'000
Salaries and other benefits Retirement benefits scheme contributions	3,741 32	3,542 21
	3,773	3,563

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

	2003	2002
	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	4	5
Number of employees	1	-
	5	5

### 8. FINANCE COSTS

	2003	2002
	RMB'000	RMB'000
Interest on bank and other loans:		
– wholly repayable within five years	24,034	12,291
– not wholly repayable within five years	-	1,560
	24,034	13,851
Bank charges	6,961	2,931
	30,995	16,782

No interest was capitalised during the year.

### Notes to the Financial Statements

For the year ended 31 December 2003

### 9. INCOME TAX EXPENSES

	2003 RMB'000	2002 RMB'000
Current tax Overprovision in prior years	4,633 (1,676)	12,324 –
	2,957	12,324

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.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2003 RMB'000	2002 RMB'000
Profit before taxation	199,242	156,058
Tax at the domestic income tax rate of 33%	65,750	E1 400
Tax effect of expenses not deductible for tax purpose	25,707	51,499 11,268
Tax effect of income not taxable for tax purpose	(6,312)	(2,386)
Tax effect of tax losses not recognised	10,477	571
Utilisation of tax losses previously not recognised	(209)	(44)
Overprovision in respect of prior year	(1,676)	(44)
		(26,692)
Effect of tax concession granted to PRC subsidiaries	(82,018)	(36,682)
Effect of different tax rates of subsidiaries	(8,762)	(11,902)
Tax effect for the year	2,957	12,324

### No dividend has been paid or declared by the Company during the year (2002: nil).

### 11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2003 RMB'000	2002 RMB'000
Earnings for the purposes of basic and diluted earnings per share	183,090	127,916
	2003 Number of shares	2002 Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share  Effect of dilutive potential ordinary shares – share options	737,000,000 8,075,000	711,986,301 –
Weighted average number of ordinary shares for the purpose of diluted earnings per share	745,075,000	711,986,301

No diluted earnings per share for 2002 is presented as the exercise price of share options outstanding during 2002 was higher than the average market price of the Company's shares.

### Notes to the Financial Statements

For the year ended 31 December 2003

### 12. PROPERTY, PLANT AND EQUIPMENT

			Machinery		0.(;		
	Land and	D' !'	and	Motor		Construction	_
	buildings RMB'000	Pipelines RMB'000	equipment RMB'000	vehicles RMB'000	equipment RMB'000	in progress RMB'000	Tota RMB'00
THE GROUP							
COST / VALUATION							
At 1 January 2003	257,250	476,168	41,760	39,552	10,328	126,701	951,75
Acquisition of subsidiaries	8,554	41,610	5,789	880	346	15,236	72,41
Additions	127,475	328,227	33,479	21,868	12,875	559,136	1,083,06
Reclassification	37,804	198,115	17,666	839	481	(254,905)	
Disposals	(1,938)	(366)	(533)	(2,557)	(189)	_	(5,583
Disposal of a subsidiary	(530)	(572)	(97)	(251)	(249)	(1,306)	(3,005
Net surplus on valuation	16,686	-	-	-	-	-	16,686
At 31 December 2003	445,301	1,043,182	98,064	60,331	23,592	444,862	2,115,332
Comprising:							
At cost	_	1,043,182	98,064	60,331	23,592	444,862	1,670,03
At valuation	445,301	-	-	_	-	-	445,30
	445,301	1,043,182	98,064	60,331	23,592	444,862	2,115,332
DEPRECIATION AND							
AMORTISATION							
At 1 January 2003	460	31,873	2,716	9,581	1,874	-	46,50
Provided for the year	10,468	24,269	6,618	8,193	2,823	-	52,37
Eliminated on disposals	(16)	(27)	(253)	(1,817)	(69)	-	(2,182
Eliminated on disposal							
of a subsidiary	(10)	(44)	(6)	(3)	(11)	-	(74
Eliminated on valuation	(10,902)	_	-	-	-	_	(10,902
At 31 December 2003	-	56,071	9,075	15,954	4,617	-	85,717
NET BOOK VALUES							
At 31 December 2003	445,301	987,111	88,989	44,377	18,975	444,862	2,029,615
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:

	2003	2002
	RMB'000	RMB'000
Land and buildings in Hong Kong under long leases Land and buildings in PRC under medium term land use rights	22,800 422,501	22,541 234,249
	445,301	256,790

At the balance sheet date, the Group is in the process of obtaining land use right certificates for its land and buildings in PRC amounting to RMB145,122,000 (2002: RMB7,193,000).

In the opinion of the directors, the Group is not required to incur additional cost in obtaining the land use right certificates for its land and buildings in the PRC.

The Group revalued its land and buildings as at 31 December 2003, resulting in a revaluation surplus of RMB27,588,000 (2002: RMB25,665,000) which has been credited to the revaluation reserve. The valuation was carried out by Chesterton Petty Limited, a firm of professionally qualified valuers, on an open market value basis. At 31 December 2003, the carrying value of these revalued land and buildings amounted to RMB445,301,000 (2002: RMB234,249,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation of RMB381,459,000 (2002: RMB196,003,000).

For the year ended 31 December 2003

#### 13. INTANGIBLE ASSETS

		THE GROUP	
		Exclusive rights	
	Goodwill	of operation	Total
	RMB'000	RMB'000	RMB'000
GROSS AMOUNT			
At 1 January 2003	18,124	5,000	23,124
Arising on:			
– acquisition of subsidiaries (note 31)	19,561	-	19,561
– acquisition of business (note a and note 33)	32,666	-	32,666
– acquisition of a business operation (note b)	-	8,000	8,000
At 31 December 2003	70,351	13,000	83,351
AMORTISATION			
At 1 January 2003	1,316	_	1,316
Charge for the year	3,517	189	3,706
At 31 December 2003	4,833	189	5,022
CARRYING VALUES			
At 31 December 2003	65,518	12,811	78,329
At 31 December 2002	16,808	5,000	21,808

#### Notes:

- (a) 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 cash and non-cash assets. Upon completion of the capital injection by both parties, the Group recognised an amount of RMB32,666,000, 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. Goodwill is amortised using straight line method over 20 years.
- (b) The amount arose from the acquisition of exclusive rights to operate in gas pipeline infrastructure and provision of piped gas in Zhuzhou City, the PRC, for a period of 30 years. The exclusive rights of operation is amortised on a straight line method over the relevant operation period.

	THE GROUP RMB'000
GROSS AMOUNT	
At 1 January 2003	1,948
Arising on:	
– acquisition of business (note a and note 33)	1,261
– acquisition of additional interests in subsidiaries during the year	1,329
At 31 December 2003	4,538
RELEASED TO INCOME	
At 1 January 2003	192
Released in the year	226
At 31 December 2003	418
CARRYING AMOUNT	
At 31 December 2003	4,120
At 31 December 2002	1,756

#### Note:

(a) 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 cash and non-cash assets. Upon completion of the capital injection by both parties, the Group recognised an amount of RMB1,261,000, representing the excess of the Group's interest in the fair value of the net assets of these subsidiaries over the Group's initial capital contribution in these subsidiaries.

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.

For the year ended 31 December 2003

#### 15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Unlisted shares, at cost	20,564	20,564
Amounts due from subsidiaries	1,260,348	717,162
	1,280,912	737,726

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 42.

#### 16. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Share of net assets	3,235	_
Goodwill on acquisition of an associate	7,159	-
	10,394	-

Details of the Group's associate as at 31 December 2003 are as follows:

Name of company	Form of business structure	Place of establishment	Proportion of nominal value of registered capital held by the Group	Principal activities
鹽城常建燃氣有限公司 ("Yancheng Changjian Gas Co., Ltd.")	Incorporated	The PRC	45%	Provision of piped gas

The goodwill is amortised on a straight-line basis over 20 years.

The goodwill on acquisition of an associate of RMB7,250,000 arose on the acquisition of the associate during the year. Amortisation charged in the current year amounting to RMB91,000 has been included in the amount reported as share of results of an associate in the consolidated income statement.

#### 17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	GR		

	2003 RMB'000	2002 RMB'000
Share of net assets	22,105	2,500

Details of the Group's jointly controlled entity as at 31 December 2003 are as follows:

Name of company	Form of business structure	Place of establishment	Proportion of nominal value of registered capital held by the Group	Principal activities
鹽城新奧壓縮天燃氣有限公司 ("Yancheng Xinao Compressed Natural Gas Company Limited")	Incorporated	The PRC	50%	Production and distribution of compressed natural gas
東莞新奧燃氣有限公司 ("Dongguan Xinao Gas Company Limited")	Incorporated	The PRC	49%	Investment in gas pipeline infrastructure and provision of piped gas and liquefied petroleum gas

#### **18. INVESTMENT IN SECURITIES**

#### THE GROUP

	• • • • • • • • • • • • • • • • • • • •	
	2003	2002
	RMB'000	RMB'000
Investment securities	1,000	-

The amount represents insurance fund maintained with an insurance company. The fund earns 2.5% investment income per annum.

For the year ended 31 December 2003

#### 19. INVENTORIES

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Construction materials	43,421	34,382
Gas appliances	17,449	5,366
Piped gas	2,168	1,205
Bottled liquefied petroleum gas	8,022	3,577
Spare parts and consumable	1,890	2,493
	72,950	47,023

Included above are gas appliances of approximately RMB5,825,000 (2002: nil) which are carried at net realisable value.

# 20. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
The following is an aged analysis of trade receivable:		
0 – 3 months	129,244	55,553
4 – 6 months	37,125	7,004
7 – 9 months	11,528	5,377
10 – 12 months	2,813	1,357
More than 1 year	480	_
Trade receivable	181,190	69,291
Amount due from an officer	-	67
Prepayments, deposits and other receivables	88,026	29,034
	269,216	98,392

The amount due from an officer represents the amount advanced to Ms. Lam Hiu Ha, the Head of Hong Kong Office, which is unsecured and interest free. The amount was fully repaid during the year and the maximum amount outstanding during the year amounted to RMB67,000.

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Contract costs incurred plus recognised profits less anticipated losses	185,958	104,378
Less: Progress billings	(197,868)	(100,131)
	(11,910)	4,247
Analysed for reporting purposes as:		
Amounts due from customers for contract work	108,284	49,883
Amounts due to customers for contract work	(120,194)	(45,636)
	(11,910)	4,247

For the year ended 31 December 2003

# 22. AMOUNTS DUE FROM RELATED COMPANIES THE GROUP

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

Name of company	Balance at 31.12.2003 RMB'000	Balance at 1.1.2003 RMB'000	Maximum amount outstanding during the year RMB'000
新奧集團石家莊化工機械股份有限公司 ("Xinao Group Shijiazhuang Chemical and Machinery Company Limited")	9,973	5,590	18,599
常州市武進燃氣總公司	1,983	-	2,014
("Changzhou City Wujin Gas Company")* 廊坊新奥物業管理有限公司	1,954	4,961	9,874
("Langfang Xinao Property Management Company Limited") 萊陽市燃氣公司 ("Laiyang City Gas and Heating Corporation")*	1,366	860	1,366
廊坊新城房地產開發有限公司  ("Langfang Xincheng Property Development Company Limited")	1,320	-	1,320
安瑞科蚌埠壓縮機有限公司	1,002	56	1,002
("Enric Bengbu Compressed Machinery Company Limited") 諸城市燃氣熱力總公司	721	320	721
("Zhucheng City Gas and Heating Corporation")* 連雲港科普置業公司	550	_	550
("Lianyungang Kepu Property Company)* 連雲港城市投資建設有限公司	275	_	275
("Lianyungang City Construction and Investment Company Limited")*			
開封市發展投資有限公司 ("Kaifung City Development Investment Company Limited")*	200	-	200
廊坊新奧酒店管理有限公司	89	544	1,080
("Langfang Xinao Hotel Management Company Limited") 蘭溪東升能源有限公司	49	-	2,000
("Lanxi Dongsheng Energy Company Limited")* 北京市昌平市政經濟發展總公司	43	2,023	2,023
("Beijing City Changping Urban Economic Development Head Corporation")*			
海寧萬通燃氣有限公司	34	-	34
("Haining Wan Tong Gas Company Limited")* 淮安市燃氣總公司	19	_	19
("Huaian City Gas Company")* 新奧集團股份有限公司	_	1,325	1,325
("Xinao Group Company Limited") 廊坊新奧置業有限公司	_	45	45
("Langfang Xinao Property Company Limited")		43	43
	19,578	15,724	

<sup>\*</sup> 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 repayable on demand.

#### 23. TRADE AND OTHER PAYABLES

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
The following is an aged analysis of trade payable:		
0 – 3 months	179,726	90,007
4 – 6 months	14,889	13,078
7 – 9 months	6,882	8,943
10 – 12 months	5,582	3,670
More than 1 year	22,714	16,968
Trade payable	229,793	132,666
Advances received from customers	11,727	7,611
Accrued charges and other payables	67,278	41,298
	308,798	181,575

For the year ended 31 December 2003

#### 24. AMOUNTS DUE TO RELATED COMPANIES

#### THE GROUP

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

Name of company	2003	2002
	RMB'000	RMB'000
株洲市城市建設投資有限公司 *	30,033	_
湘潭市煤氣公司	12,465	_
("Xiangtan City Coal Gas Company")*		
長沙市燃氣總公司 *	10,306	_
Changzhou City Wujin Gas Company*	3,663	_
Xinao Group Shijiazhuang Chemical and Machinery Company Limited	2,209	160
新奧集團國際經濟發展有限公司	945	_
北京新奧廣廈房地產開發有限公司	290	_
Huaian City Gas Company*	271	_
Haining Wan Tong Gas Company Limited*	66	_
海寧民泰煤氣公司*	51	_
Enric Bengbu Compressed Machinery Company Limited	25	22
Xinao Group Company Limited	8	_
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 County Fengling LPG Company")*		
聊城市熱力公司	_	84
("Liaocheng City Gas and Heating Corporation")*		
平谷縣液化石油氣公司	_	2
("Pinggu Country LPG Company")*		
	60,332	18,860

<sup>\*</sup> 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 repayable on demand.

# 25. AMOUNTS DUE TO SUBSIDIARIES

#### THE COMPANY

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

# 26. BANK AND OTHER LOANS

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank loans	33,173	49,344	_	_
Unsecured bank loans	1,053,244	374,666	620,100	248,040
Unsecured loans from minority	1,086,417	424,010	620,100	248,040
shareholders	25,509	43,418	-	-
	1,111,926	467,428	620,100	248,040
The bank and other loans are repayable:				
Within one year	541,390	202,016	82,680	-
Between one to two years	322,022	4,615	289,380	-
Between two to five years	248,514	252,765	248,040	248,040
More than five years	-	8,032	-	-
Less: Amount due within one year	1,111,926	467,428	620,100	248,040
shown under current liabilities	(541,390)	(202,016)	(82,680)	-
Amount due after one year	570,536	265,412	537,420	248,040

All bank and other loans bear interest at prevailing market rates.

For the year ended 31 December 2003

#### 27. DEFERRED TAXATION

At the balance sheet date, the Group had deferred taxation amounting to RMB17,058,000 (2002: RMB10,618,000) arising on valuation of properties. The movements of deferred taxation during the current and prior reporting periods are as follows:

	TH	IE GROUP
	2003	2002
	RMB'000	RMB'000
At beginning of the year	10,618	3,730
Charge to equity during the year	6,613	6,888
Reversal on disposal of a subsidiary	(48)	-
Reversal on disposals of land and buildings	(125)	_
At end of the year	17,058	10,618

At the balance sheet date, the Group has unused tax losses of RMB3,662,000 (2002: RMB3,093,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB1,914,000 (2002: RMB3,093,000) that will expire in 2007. Other losses will expire in 2008.

#### 28. SHARE CAPITAL

	2003 Num	2002 ber of shares	2003 HK\$'000	2002 HK\$'000
Shares of HK\$0.10 each				
Authorised:				
At beginning and 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 Issue of shares on placing (note)	737,000,000 –	627,000,000 110,000,000	73,700 –	62,700 11,000
At end of the year	737,000,000	737,000,000	73,700	73,700
			RMB'000	RMB'000
Presented in financial statements as:				
At beginning of the year Issue of shares on placing (note)			78,122 –	66,462 11,660
At end of the year			78,122	78,122

#### Note:

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.

#### 29. 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 21 May 2001. In connection with the listing of shares on the Main Board of the Stock Exchange, the Company has adopted another 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.

The purpose of the 2002 Scheme is to provide incentives for participants 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 or 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 on each grant 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 the 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.

The following tables disclose details of the Company's share options held by the employees (including directors) and movements in such holdings under the two schemes during the year:

#### 2001 Scheme

2001 30116111		Exercise period	Exercise price	Number of options outstanding at 1.1.2003 HK\$	Cancelled during the year HK\$	Number of options outstanding at 31.12.2003 HK\$
Directors Employees	31.1.2002 31.1.2002	1.8.2002 – 31.1.2012 1.8.2002 – 31.1.2012	HK\$2.625 HK\$2.625	9,900,000 8,100,000	(9,900,000) (8,100,000)	=
				18,000,000	(18,000,000)	_

For the year ended 31 December 2003

# 29. SHARE OPTION SCHEME (CONT'D) 2001 Scheme (Cont'd)

	Date of grant	Exercise period	Exercise price	Number of options outstanding at 1.1.2002 HK\$	Granted during the year HK\$	Number of options outstanding at 31.12.2002 HK\$
Directors Employees	31.1.2002 31.1.2002	1.8.2002 – 31.1.2012 1.8.2002 – 31.1.2012	HK\$2.625 HK\$2.625	- -	9,900,000 8,100,000	9,900,000 8,100,000
				-	18,000,000	18,000,000
2002 Schem	ne					
				Number of options outstanding at	Granted during	Number of options outstanding at
	Date of grant	Exercise period	Exercise price	1.1.2003 HK\$	the year HK\$	31.12.2003 HK\$
Directors Employees	14.2.2003 14.2.2003	15.8.2003 – 14.2.2013 15.8.2003 – 14.2.2013	•	- -	19,000,000 13,300,000	19,000,000 13,300,000
				-	32,300,000	32,300,000

No option of 2002 Scheme was granted during the year ended 31 December 2002.

At 31 December 2003, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 32,300,000 (2002: 18,000,000 outstanding under the 2001 Scheme) representing 4.4% (2002: 2.4%) of the shares of the Company in issue as at that date. Total consideration of HK\$38 was received by the Company during the year on acceptance of each grant.

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.

THE GROUP	Share	Special	Goodwill	Statutory	Revaluation	Accumulated	
	premium	reserve	reserve	reserves	reserve	profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2002	248,941	1,167	5,590	_	8,725	121,776	386,199
Surplus arising on valuation							
of land and buildings	-	-	-	-	25,665	-	25,665
Tax effect on valuation surplus	-	-	-	-	(6,888)	-	(6,888)
Share of valuation surplus by							
minority shareholders	-	-	-	-	(2,424)	-	(2,424)
Arising on shares issued on							
placing	343,970	-	-	-	-	-	343,970
Shares issue expenses	(13,083)	-	-	-	-	-	(13,083)
Profit for the year	-	-	-	-	-	127,916	127,916
At 31 December 2002 and							
1 January 2003	579,828	1,167	5,590	-	25,078	249,692	861,355
Surplus arising on valuation							
of land and buildings	-	-	-	-	27,588	_	27,588
Tax effect on valuation surplus	-	-	-	-	(6,613)	-	(6,613)
Share of valuation surplus by							
minority shareholders	-	-	-	-	(5,443)	-	(5,443)
Eliminated on disposal of a							
subsidiary	-	-	-	-	(181)	181	-
Eliminated on disposal of							
land and buildings	-	-	-	-	(375)	375	-
Reversal of tax effect on							
valuation surplus upon							
disposal of a subsidiary	-	-	-	-	44	(44)	-
Reversal of tax effect on							
valuation surplus upon							
disposal of land and buildings	_	-	-	-	112	(112)	-
Profit for the year	_	-	-	-	-	183,090	183,090
Transfer	-	-	_	33,430	-	(33,430)	-
At 31 December 2003	579,828	1,167	5,590	33,430	40,210	399,752	1,059,977

For the year ended 31 December 2003

# 30. RESERVES (CONT'D) THE COMPANY

	Share premium RMB'000	Accumulated profits (losses) RMB'000	Total RMB'000
At 1 January 2002 Arising on shares issued on placing Share issue expenses Loss for the year	248,941 343,970 (13,083)	842 - - (2,874)	249,783 343,970 (13,083) (2,874)
At 31 December 2002 Loss for the year	579,828 -	(2,032) (12,186)	577,796 (12,186)
At 31 December 2003	579,828	(14,218)	565,610

Special reserve represents the difference between the paid up capital of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition.

In accordance with the regulations of the PRC, the statutory reserves may be used to make good the accumulated losses or satisfy the unpaid capital. These statutory reserves retained by the subsidiaries in the PRC are non-distributable.

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 RBM565,610,000 (2002: RMB577,796,000).

# During the years ended 31 December 2003 and 2002, the Group acquired the following companies, particulars of which are as follows:

Name of subsidiary	Acquired company	Equity interest acquired	Consideration
Year ended 31 December 2003			
Xinao Jiangsu Investment Limited	連雲港新奧燃氣有限公司 Lianyungang Xinao Gas Company Limited	70%	RMB50,000,000
	連雲港市宏大燃氣設備安裝 工程有限公司 Lianyungang City Hongda Gas Equipment Engineering Company Limited	62%	
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%	RMB8,000,000

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# 31. ACQUISITION OF SUBSIDIARIES (CONT'D)

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

	2003 RMB'000	2002 RMB'000
Net assets acquired		
Property, plant and equipment	72,415	13,999
Inventories	1,317	3,107
Trade and other receivables	2,462	1,660
Bank balances and cash	4,860	1,468
Trade and other payables	(5,211)	(15,233)
Bank and other loans	(30,000)	-
Minority interests	(15,404)	(1,116)
	30,439	3,885
Goodwill	19,561	4,115
Total consideration	50,000	8,000
Satisfied by		
Cash consideration	50,000	8,000
Outflow of cash and cash equivalents arising on acquisition		
Cash consideration	50,000	8,000
Bank balances and cash acquired	(4,860)	(1,468)
Net outflow of cash and cash equivalents in respect		
of purchase of subsidiaries	45,140	6,532

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

	RMB'000	RMB'000
Results Contribution to the Group's turnover Contribution to the Group's profit for the year	5,295 (831)	9,256 3,702
Cash flows Contribution to the Group's net operating cash flows Utilisation of funds for investing activities	2,333 (1,079)	5,997 (5,427)

During the year, the Group disposed of a subsidiary, 安吉新奧燃氣有限公司 ("Anji Xinao Gas Company Limited"). The net assets of Anji Xinao Gas Company Limited at the date of disposal were as follows:

	RMB'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	2,931
Inventories	292
Trade and other receivables	875
Amounts due from related companies	1,234
Trade and other payables	(831)
Amounts due to related companies	(1,290)
Minority interests	(805)
	2,406
Gain on disposal of subsidiary	718
Total consideration	3,124
Satisfied by:	
Cash	3,124

The subsidiary disposed of during the year contributed RMB548,000 to the Group's turnover and RMB492,000 to the Group's profit from operations.

For the year ended 31 December 2003

#### 33. MAJOR NON-CASH TRANSACTIONS

During the year, the Group established certain subsidiaries in the PRC. Apart from the cash contributions of RMB50,821,000 (2002: RMB8,294,000) from the minority shareholders, the minority shareholders also contributed the capital in the form of non-cash assets.

The amount of non-cash assets contributed by the minority shareholders to these subsidiaries during the year are summarised as follows:

	2003	2002
	RMB'000	RMB'000
Non-cash assets		
Property, plant and equipment	390,244	60,503
Inventories	13,791	4,995
Trade and other receivables	67,676	2,441
Trade and other payables	(79,489)	(20,890)
Amounts due to related companies	(131,520)	_
Bank and other loans	(118,772)	-
	141,930	47,049
Goodwill recognised (note 13)	32,666	5,812
Negative goodwill recognised (note 14)	(1,261)	-
	173,335	52,861

#### **34. CAPITAL COMMITMENTS**

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
– contracted but not provided for	25,561	9,340
– authorised but not contracted for	14,200	_

#### 35. 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:

	2003 RMB'000	2002 RMB'000
Within one year In the second to fifth year inclusive Over five years	2,762 4,290 440	1,806 3,244 –
	7,492	5,050

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

#### The Group as lessor

Certain of the Group's properties with a carrying amount of RMB28,279,000 (2002: RMB20,605,000) are held for rental purposes. The depreciation charge of these properties amounted to RMB1,590,000 (2002: RMB1,152,000) 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:

	2003 RMB'000	2002 RMB'000
Within one year In the second to fifth year inclusive	2,221 117	1,805 1,805
	2,338	3,610

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

#### 36. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged certain assets as securities for bank loans granted to the Group as follows:

	2003 RMB'000	2002 RMB'000
Property, plant and equipment	79,972	73,601

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# **37. RELATED PARTY TRANSACTIONS**

Nature of transaction	Name of related party	2003 RMB'000	2002 RMB'000
Provision of gas connection service (Note i)	Enric Bengbu Compressed Machinery Company Limited	315	-
	Langfang Xincheng Property Development Company Limited	1,920	72
		2,235	72
Sales of gas (Note ii)	Enric Bengbu Compressed Machinery Company Limited Langfang Xinao Hotel Management Company	75	-
	Limited	536	526
	Langfang Xinao Property Management Company Limited Xinao Group Company Limited	7,714 141	6,626 227
		8,466	7,379
Purchase of gas (Note ii)	Anji County Fengling LPG Company 海寧民泰煤氣公司	222 737	-
		959	-
Purchase of materials (note ii)	長沙市燃氣總公司	152	-
Repair service expense (Note ii)	Enric Bengbu Compressed Machinery Company Limited	94	-
Lease of premises by the Group (Note iii)	Langfang Xinao Property Management Company Limited Xinao Group Company Limited 海寧民泰煤氣公司	330 1,739 90	330 1,475 –
		2,159	1,805
Lease of premises to the Group (Note iii)	Haining Wan Tong Gas Company Limited	50	-
Reimbursement of management fee (Note iii)	Xinao Group Company Limited	-	264

# 37. RELATED PARTY TRANSACTIONS (CONT'D)

ature of transaction Name of related party		Nature of transaction	nsaction Name of related party 200 RMB'00		2002 RMB'000
Provision for management services to the Group (Note iv)	Langfang Xinao Property Management Company Limited	1,380	1,299		
Acquisition of compressed natural gas truck trailers, pressure regulating and gas equipment (Note v)	Xinao Group Shijiazhuang Chemical and Machinery Company Limited	10,702	25,980		
Acquisition of gas appliances (Note v)	新奧集團國際經濟發展有限公司	42	-		
Acquisition of land and buildings (Note vi)	Zhucheng City Gas and Heating Corporation 北京新奧廣廈房地產開發有限公司	- 9,590	1,560 –		
		9,590	1,560		
Loan advance from minority shareholders (Note vii)	Changzhou City Wujin Gas Company Huaian City Gas Company Kaifeng City Development Investment Company Limited 新鄉市燃氣總公司 滁州市城市基礎設施開發建設有限公司	17,000 509 8,000 - -	- 28,254 - 13,936 1,228		
		25,509	43,418		
Interest on loan advance (Note vii)	Changzhou City Wujin Gas Company Haining Wan Tong Gas Company Limited Huaian City Gas Company Kaifeng City Development Investment Company Limited Xiangtan City Coal Gas Company	658 66 60 86 51	- 248 -		
	新鄉市燃氣總公司	278 	165		

For the year ended 31 December 2003

#### 37. RELATED PARTY TRANSACTIONS (CONT'D)

Notes:

- (i) The provision of gas connection service was charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (ii) The sales and purchases of gas and materials and repair service fee were charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outsiders.
- (iii) Rental for lease of premises and reimbursement of management fee were determined in accordance with the contracts entered into between the Group and the related parties.
- (iv) The provision of management services was determined in accordance with the contract entered into between the Group and the related party.
- (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.

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.

#### (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:

	2003 RMB'000	2002 RMB'000
Turnover		
Gas connection fees	516,468	330,915
Sales of piped gas	185,720	73,588
Distributions of bottled liquefied petroleum gas	161,402	130,445
Sales of gas appliances	14,465	9,544
	878,055	544,492
Profit from operations		
Gas connection fees	375,478	243,752
Sales of piped gas	28,085	26,578
Distributions of bottled liquefied petroleum gas	369	(1,874)
Sales of gas appliances	734	1,476
Unallocated other operating income	21,111	16,969
Unallocated expenses:		
<ul><li>depreciation and amortisation (Note)</li></ul>	(20,962)	(14,823)
– corporate expenses	(172,186)	(93,817)
	232,629	178,261

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

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# 38. 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:

	2003 RMB'000	2002 RMB'000
Assets:		
Segment assets		
gas connection fees	403,894	130,484
sales of piped gas	219,373	74,397
distributions of bottled liquefied petroleum gas	55,571	50,248
sales of gas appliances	26,966	11,030
unallocated segment assets	1,310,024	615,988
Unallocated corporate assets	1,082,097	888,218
	3,097,925	1,770,365
Liabilities:		
Segment liabilities		
gas connection fees	222,444	101,224
sales of piped gas	34,193	16,852
distributions of bottled liquefied petroleum gas	1,652	9,052
sales of gas appliances	16,014	14,672
unallocated segment liabilities	82,168	51,753
Unallocated corporate liabilities	1,263,908	539,318
	1,620,379	732,871

# (a) Business segments (Cont'd) Other Information

			Depre	ciation and
	Capital additions		amortisation	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Gas connection fees	98,287	6,246	3,107	440
Sales of piped gas	139,145	68,408	8,356	3,045
Distributions of bottled liquefied petroleum gas	8,698	65,031	2,947	3,766
Sales of gas appliances	5,462	157	212	96
Unallocated segment	738,185	243,656	20,962	14,823
	989,777	383,498	35,584	22,170

#### (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.

#### 39. CONTINGENT LIABILITIES

At 31 December 2002, the Group has given guarantees to a bank in respect of banking facilities granted to a third party. The extent of such facilities utilised by the third party at 31 December 2002 amounted to RMB39,500,000. Such guarantees were released during the year.

#### **40. 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.

	2003	2002
	RMB'000	RMB'000
Retirement benefit contribution made during the year	3,884	4,486

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#### 41. POST BALANCE SHEET EVENTS

a. On 9 February 2004, a placing agreement was entered into by the Company under which a total of 122,000,000 existing shares held originally by Easywin was placed to independent third parties at the price of HK\$3.84 per share. Immediately after completion of the share placing, a total of 122,000,000 new shares was issued by the Company and subscribed by Easywin at the price of HK\$3.84 per share. The costs and expenses relating to the transactions of approximately HK\$12,000,000 was borne by the Company. After completion of the share placing and subscription, Easywin's shareholdings in the Company was diluted from 55.36% to 47.50%.

The net proceeds from the completion of the placing and subscription were approximately HK\$456,480,000. These will be used for general working capital purpose and for investment in new piped gas distribution projects and the construction and operation of natural gas stations for usage primarily by public transportation.

b. Subsequent to the balance sheet date, the Group has made certain investments in companies established in the PRC.

Details of the investments are summarised as follows:

Name of company	Capital contributed by the Group	Proportion of nominal value of registered capital held by the Group	Principal activities
通遼新奧燃氣有限公司	US\$2,400,000	80%	Investment in gas pipeline infrastructure, provision of piped gas
湖州新奥燃氣有限公司	US\$4,550,000	50%	Investment in gas pipeline infrastructure, provision of piped gas
北海新奧燃氣有限公司	RMB35,960,000	62%	Production and sales of LNG & CNG; design and installation of piped gas facilities; production, sales and repair of gas equipment and appliances

Name of annual	Place of incorporation/	Issued and fully paid share capital/	Proportion of nominal value of issued capital/ registered capital	Delicational analysisten
Name of company	establishment	registered capital	held by the Company	Principal activities
北京新奥燃氣有限公司 * ("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	90%	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
蚌埠新奥燃氣發展有限公司 * ("Bengbu Xinao Gas Development Company Limited")	The PRC	Registered capital US\$600,000	70%	Provision of piped gas and bottled liquefied petroleum gas
濱州新奧燃氣工程有限公司# ("Binzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$600,000	100%	Investment in gas pipeline infrastructure
亳州新奥燃氣有限公司 * ("Bozhou Xinao Gas Company Limited")	The PRC	Registered capital US\$4,000,000	70%	Provision of piped gas
毫州新奥燃氣工程有限公司 * ("Bozhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	70%	Investment in gas pipeline infrastructure
長沙新奧燃氣有限公司 * ("Changsha Xinao Gas Company Limited")	The PRC	Registered capital RMB150,000,000	55%	Investment in gas pipeline infrastructure and provision of piped gas
常州新奧燃氣有限公司 * ("Changzhou Xinao Gas Company Limited")	The PRC	Registered capital US\$5,000,000	60%	Investment in gas pipeline infrastructure and provision of piped gas

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Name of company	Place of incorporation/	Issued and fully paid share capital/	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
巢湖新奧燃氣有限公司# ("Chaohu Xinao Gas Company Limited")	The PRC	Registered capital US\$5,784,000	100%	Investment in gas pipeline infrastructure
巢湖新奥燃氣發展有限公司 * ("Chaohu Xinao Gas Development Company Limited")	The PRC	Registered capital US\$420,000	100%	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%	Provision of piped gas
滁州新奧燃氣安裝有限公司 * ("Chuzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$600,000	93%	Investment in gas pipeline infrastructure
海安新奥燃氣有限公司# ("Haian Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	100%	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%	Provision of piped gas
葫蘆島新奥燃氣發展有限公司 * ("Huludao Xinao Gas Development Company Limited")	The PRC	Registered capital US\$1,200,000	90%	Investment in gas pipeline infrastructure

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
金華新奧燃氣有限公司# ("Jinhua Xinao Gas Company Limited")	The PRC	Registered capital US\$5,000,000	100%	Provision of piped gas
金華新奧燃氣發展有限公司 * ("Jinhua Xinao Gas Development Company Limited")	The PRC	Registered capital US\$600,000	100%	Investment in gas pipeline infrastructure
開封新奧燃氣有限公司 ("Kaifeng Xinao Gas Company Limited")	The PRC	Registered capital US\$10,000,000	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%	Provision of piped gas
萊陽新奧燃氣工程有限公司 * ("Laiyang Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	97%	Investment in gas pipeline infrastructure
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
蘭溪新奧燃氣有限公司 * ("Lanxi Xinao Gas Company Limited")	The PRC	Registered capital US\$1,500,000	80%	Investment in gas pipeline infrastructure and provision of piped gas
連雲港新奧燃氣有限公司 ("Lianyungang Xinao Gas Company Limited")	The PRC	Registered capital RMB49,512,100	70%	Provision of piped gas
連雲港新奧燃氣工程有限公司 ("Lianyungang Xinao Gas Development Company Limited")	The PRC	Registered capital RMB10,000,000	70%	Investment in gas pipeline infrastructure

For the year ended 31 December 2003

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%	Provision of piped gas
聊城新奧燃氣工程有限公司 * ("Liaocheng Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$1,200,000	93%	Investment in gas pipeline infrastructure
六安新奧燃氣有限公司# ("Luan Xinao Gas Company Limited")	The PRC	Registered capital RMB20,000,000	100%	Provision of piped gas
六安新奧燃氣工程有限公司# ("Luan Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure
南通新奥燃氣工程有限公司# ("Nantong Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure
青島新奧燃氣有限公司 * ("Qingdao Xinao Gas Company Limited")	The PRC	Registered capital RMB20,000,000	90%	Provision of piped gas
青島新奧燃氣設施開發有限公司# ("Qingdao Xinao Gas Establishment Exploiture Co., Ltd.")	The PRC	Registered capital US\$600,000	90%	Investment in gas pipeline infrastructure
青島新奧膠城燃氣有限公司 ("Qingdao Xinao Jiaocheng Gas Company Limited")	The PRC	Registered capital US\$5,000,000	51%	Investment in gas pipeline infrastructure and provision of piped gas
青島新奧膠南燃氣有限公司 ("Qingdao Xinao Jiaonan Gas Company Limited")	The PRC	Registered capital US\$2,000,000	100%	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
Name of company	Catabilarinicit	registered capital	neid by the company	Timespar activities
青島新奧膠南燃氣工程有限公司 ("Qingdao Xinao Jiaonan Gas Engineering Limited")	The PRC	Registered capital US\$1,000,000	100%	Investment in gas pipeline infrastructure
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%	Provision of piped gas
青島新奧新城燃氣工程有限公司 * ("Qingdao Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	93%	Investment in gas pipeline infrastructure
衢州新奧燃氣有限公司 * ("Quzhou Xinao Gas Company Limited")	The PRC	Registered capital RMB50,000,000	90%	Investment in gas pipeline infrastructure
衢州新奧燃氣發展有限公司 * ("Quzhou Xinao Gas Development Company Limited")	The PRC	Registered capital US\$600,000	90%	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%	Provision of piped gas
日照新奧燃氣工程有限公司 * ("Rizhao Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$1,210,000	86%	Investment in gas pipeline infrastructure
石家莊新奧燃氣有限公司 * ("Shijiazhuang Xinao Gas Company Limited")	The PRC	Registered capital RMB130,000,000	70%	Investment in gas pipeline infrastructure and provision of piped gas
泰興新奧燃氣有限公司 * ("Taixing Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	90%	Provision of piped gas
泰興新奧燃氣工程有限公司 * ("Taixing Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	90%	Investment in gas pipeline infrastructure

For the year ended 31 December 2003

Name of company	Place of incorporation/	Issued and fully paid share capital/	Proportion of nominal value of issued capital/ registered capital	Deinsing Lockiniking
Name of company	establishment	registered capital	held by the Company	Principal activities
溫州新奧燃氣有限公司# ("Wenzhou Xinao Gas Company Limited")	The PRC	Registered capital US\$3,100,000	100%	Investment in gas pipeline infrastructure and provision of piped gas
湘潭新奥燃氣有限公司 * ("Xiangtan Xinao Gas Company Limited")	The PRC	Registered capital RMB100,000,000	85%	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\$30,000,000	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%	Provision of piped gas
興化新奧燃氣工程有限公司# ("Xinghua Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$600,000	100%	Investment in gas pipeline infrastructure
新鄉新奧燃氣有限公司 * ("Xinxiang Xinao Gas Company Limited")	The PRC	Registered capital US\$10,000,000	95%	Provision of piped gas and bottled liquefied petroleum gas
新鄉新奧燃氣工程有限公司 * ("Xinxiang Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$1,200,000	95%	Investment in gas pipeline infrastructure
鹽城新奧燃氣有限公司# ("Yancheng Xinao Gas Company Limited")	The PRC	Registered capital RMB50,000,000	100%	Investment in gas pipeline infrastructure
鹽城新奧燃氣發展有限公司 * ("Yancheng Xinao Gas Development Company Limited")	The PRC	Registered capital US\$600,000	86%	Provision of piped gas

#### 42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (CONT'D)

Name of company	Place of incorporation/	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
		9		
揚州新奧燃氣有限公司# ("Yangzhou Xinao Gas Company Limited")	The PRC	Registered capital US\$1,300,000	100%	Provision of piped gas
揚州新奧燃氣工程有限公司# ("Yangzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure
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%	Provision of piped gas and bottled liquefied petroleum gas
諸城新奧管道工程有限公司 * ("Zhucheng Xinao Pipeline Engineering Company Limited")	The PRC	Registered capital US\$800,000	86%	Investment in gas pipeline infrastructure
株洲新奧燃氣有限公司 ("Zhuzhou Xinao Gas Company Limited")	The PRC	Registered capital RMB135,000,000	55%	Investment in gas pipeline infrastructure and provision of piped gas
鄒平新奧燃氣有限公司# ("Zouping Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	100%	Provision of piped 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

None of the subsidiaries had any debt securities subsisting as at 31 December 2003 or at any time during the year.

<sup>\*</sup> Sino-foreign equity joint venture

Foreign owned enterprise