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If you have sold or transferred all you shares in **Xinao Gas Holdings Limited**, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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XINAO GAS HOLDINGS LIMITED

新奧燃氣控股有限公司*

(incorporated in the Cayman Islands with limited liability)

MAJOR TRANSACTION

**PLACING OF EXISTING SHARES
AND
SUBSCRIPTION FOR NEW SHARES**

**Financial adviser to
Xinao Gas Holdings Limited**



A letter from the board of directors of Xinao Gas Holdings Limited is set out on pages 3 to 7 of this circular.

This circular will remain on the GEM website at “www.hkgem.com” on the “Latest Company Announcements” page for a minimum period of seven days from the date of publication.

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which these companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at “www.hkgem.com” in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“ABN AMRO Rothschild” or “Placing Agent”	ABN AMRO Bank N.V. and N M Rothschild & Sons Limited, each trading as ABN AMRO Rothschild
“Announcement”	as announcement of the Company dated 12 March 2002 in relation to the Placing and the Subscription
“Company” or “Xinao”	Xinao Gas Holdings Limited, an exempted company incorporated in the Cayman Islands on 20 July 2000 with limited liability, the Shares of which are listed on GEM
“Director(s)”	the director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Latest Practicable Date”	26 March 2002, being the latest practicable date of ascertaining certain information contained in this circular prior to its publication
“Mr. Wang”	Mr. Wang Yusuo (王玉鎖先生), the chairman of the Company and an executive Director, and the spouse of Ms. Zhao
“Ms. Zhao”	Ms. Zhao Baoju (趙寶菊女士), a non-executive Director and the spouse of Mr. Wang
“Option”	an option granted by the Vendor to the Placing Agent pursuant to the Placing Agreement under which the Placing Agent will have the right to require the Vendor to place an additional 15,000,000 Shares at the Placing Price pursuant to the Placing Agreement
“Placing”	the placing of the Placing Shares pursuant to the Placing Agreement
“Placing Agreement”	the placing agreement dated 12 March 2002 between the Vendor, the Company and the Placing Agent
“Placing Price”	HK\$3.05 per Placing Share
“Placing Shares”	110,000,000 existing Shares
“PRC”	the People’s Republic of China

DEFINITIONS

“Rothschild” or “Sponsor”	N M Rothschild & Sons (Hong Kong) Limited
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the conditional subscription by Easywin of the Subscription Shares pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 12 March 2002 between Easywin and the Company
“Subscription Shares”	110,000,000 new Shares
“Vendor” or “Easywin”	Easywin Enterprises Limited, a company incorporated in the British Virgin Islands on 18 July 2000 with limited liability and which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao
“Yancheng Xinao”	鹽城新奧燃氣有限公司 (Yancheng Xinao Gas Company Limited*), a Sino-foreign joint venture to be established. Yancheng Xinao will be owned as to 80% by the Group and 20% by 上海岩鑫實業投資有限公司 (Shanghai Yanxin Enterprise Investment Company Limited*, an independent third party not associated with the connected persons of the Company)
“HK\$”	Hong Kong dollars
“RMB”	Renminbi
“%”	per cent.

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

LETTER FROM THE BOARD



XINAO GAS HOLDINGS LIMITED

新奧燃氣控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Executive Directors:

Mr. Wang Yusuo
Mr. Yang Yu
Mr. Zhao Jinfeng
Mr. Qiao Limin
Mr. Jin Yongsheng
Mr. Yu Jianchao

Non-executive Director:

Ms. Zhao Baoju

Independent non-executive Directors:

Mr. Wang Guangtian
Mr. Xu Liang

Registered office:

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

Principal office in Hong Kong:

Room 4202
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Head office in the PRC:

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

28 March 2002

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

SUBSCRIPTION FOR NEW SHARES

INTRODUCTION

On 12 March 2002, the Company announced that it has entered into the Placing Agreement with the Placing Agent pursuant to which the Placing Agent has agreed to purchase or procure purchasers to purchase, and the Vendor has agreed to sell, 110,000,000 existing Shares at the Placing Price of HK\$3.05 per Share. The placing was fully underwritten. On the same day, the Vendor and the Company entered into the Subscription Agreement pursuant to which the Vendor has conditionally agreed to subscribe from the Company for 110,000,000 new Shares at the Placing Price (net of expenses relating to the Placing and the Subscription).

* For identification only

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ABN AMRO Rothschild has successfully completed the placement of all of the Placing Shares on behalf of Easywin to 96 placees. An aggregate of 13,968,000 Shares have been placed to ABN AMRO Asset Management (Asia) Limited, ABN AMRO Bank N.V. and Selective Investment Holdings Limited, all being connected clients of ABN AMRO Rothschild, representing approximately 12.7% of the Placing Shares and 1.9% of the issued share capital of the Company immediately following completion of the Subscription.

Save for the above and to the knowledge of the Board and ABN AMRO Rothschild, the placees are independent from the Directors, chief executives or substantial shareholders or management shareholders of the Group or any of their respective associates (as defined in the GEM Listing Rules), and that none of the placees fall under any of the categories set out in Note 1 to Rule 10.12(4) of the GEM Listing Rules.

The Placing was completed on 15 March 2002. The Option was not exercised and has thus lapsed.

The Subscription constitutes a major transaction under the GEM Listing Rules. The purpose of this circular is to provide information on the Subscription Agreement and other additional information as required under the GEM Listing Rules.

SUBSCRIPTION AGREEMENT DATED 12 MARCH 2002

Parties

- (a) Easywin (as subscriber); and
- (b) The Company (as issuer).

The Subscription Shares

110,000,000 new Shares, representing approximately 17.5% of the existing issued share capital of the Company or 14.9% of the issued share capital of the Company as enlarged by the Subscription.

The Subscription Shares have been issued pursuant to the general mandate granted to the Directors pursuant to a resolution of the sole shareholder of the Company passed on 24 April 2001.

The Subscription price

HK\$3.05 per Share, which is equivalent to the Placing Price. Pursuant to the Subscription Agreement, the Company shall bear the costs and expenses of this transaction (including the expenses relating to the Placing and the Subscription).

Ranking of the Subscription Shares

The Subscription Shares, when fully paid, would rank equally with the existing Shares.

Conditions of the Subscription

Completion of the Subscription was conditional upon:

- (a) the completion of the Placing; and

LETTER FROM THE BOARD

- (b) the Stock Exchange granting the listing of, and permission to deal in, all of the Subscription Shares.

The Company has applied to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Subscription Shares and such approval was granted on 22 March 2002. The Subscription has been duly completed on 25 March 2002. Dealings in the Subscription Shares have commenced at 10:00 a.m. on 26 March 2002 and settled through the Central Clearing and Settlement System (“CCASS”) established and operated by Hong Kong Securities Clearing Company Limited.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice from their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements may affect their rights and interests.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Group is one of the first non state-owned piped gas distributors in the PRC. The principal business of the Group is the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped gas in the PRC. Its business activities also consist of the sale of gas appliances, the production of stored value card gas metres and the provision of repair, maintenance and other services in connection with gas supply.

Following the listing of the Shares on GEM in May 2001, the Company has continued to pursue its objective in further developing its core business of distributing piped gas. As at the Latest Practicable Date, the Group has 14 project companies engaged in the provision of piped gas in the PRC with population coverage of over 3.1 million people compared to four locations in the PRC at the time of the listing in May 2001. The Company is currently in negotiations with local governments of a total of 11 possible target locations in Anhui and Jiangsu Provinces, the PRC.

The Huaian City People’s Government has approved the operation of piped gas distribution in the Huaian City by the Company and has on 5 March 2002 granted the Company the priority entry right to develop and operate piped gas supply in the Huaian City whereby no other gas distribution company will be permitted to engage in piped gas distribution during the term of the joint venture. The Company plans to establish a Sino-foreign joint venture (“Huaian Xinao”) with a PRC entity owned by 淮安市計劃委員會 (Huaian City Planning Commission*) to undertake the project. It is currently anticipated that, upon the establishment of Huaian Xinao, the Group will have no less than 70% interest in Huaian Xinao and the PRC entity owned by Huaian City Planning Commission will have no more than 30% interest in Huaian Xinao. Huaian Xinao will be engaged in the investment in, and the operation and management of gas pipeline infrastructure, the sale and distribution of piped gas, gas appliances and equipment and the provision of repair, maintenance and other services in connection with gas supply to the Huaian City, Jiangsu Province, the PRC which has a population of approximately 697,000 (comprising a total of approximately 232,000 residential households) at the end of 2000. Total investment of Huaian Xinao is currently expected to be around RMB280 million (approximately HK\$264 million) and such investment will be funded partly by investment by shareholders (in proportion of their equity interest in Huaian Xinao) and internally generated cash flow of Huaian Xinao. As at the Latest Practicable Date, no legally binding agreement or memorandum of understanding has been entered into by the Company in relation to the establishment of Huaian Xinao. The Group is in active negotiation in relation to Huaian Xinao and it is currently anticipated that a Sino-foreign joint venture contract will be entered into within three months from the date of the Announcement. Appropriate announcement

LETTER FROM THE BOARD

will be made if the materialisation of the Huaian Xinao project constitutes matters discloseable under Chapter 19 of the GEM Listing Rules.

The Yancheng City People's Government has approved-in-principle the acquisition of 80% interest in an existing gas distributor (the "Existing Operator") in Yancheng City, Jiangsu Province, the PRC (the "Yancheng Project") by the Company on 7 March 2002. The Existing Operator is currently engaged in piped gas distribution in the northern part of Yancheng City, Jiangsu Province, the PRC which has a population of approximately 630,000 (comprising a total of approximately 210,000 residential households) at the end of 2000. On 14 March 2002, the Group (through a wholly owned subsidiary) entered into a share purchase agreement to acquire a total of 80% interest in the Existing Operator from its existing shareholders for a consideration of RMB8 million (equivalent to approximately HK\$7.5 million). The consideration represents the existing shareholders' capital contribution to the Existing Operator. On 19 March 2002, the Group (through the same wholly owned subsidiary) entered into a Sino-foreign joint venture contract with 上海岩鑫實業投資有限公司 (Shanghai Yanxin Enterprise Investment Company Limited* ("Shanghai Yanxin")) relating to the establishment of Yancheng Xinao. Upon its establishment, Yancheng Xinao will be owned as to 80% by the Group and 20% by Shanghai Yanxin for the purpose of providing piped gas to the northern part of Yancheng city, which was previously undertaken by the Existing Operator. The legal status of the Existing Operator will be changed from a PRC joint venture to a Sino-foreign equity joint venture and the business of the Existing Operator will continue. The registered capital of the Yancheng Xinao is RMB50 million (approximately HK\$47 million) and the total investment is RMB120 million (approximately HK\$113 million). Total investment represents the estimated amount of investment Yancheng Xinao may make during its entire operational period and such amount is expected to be funded partly by investment by shareholders (in proportion of their equity interest in Yancheng Xinao) and internally generated cashflow of the Yancheng Xinao.

The Directors consider that it is in the best interest of the Company to raise further capital from the equity market by way of the Placing and the Subscription. The net proceeds from the Subscription are estimated to amount to approximately HK\$326 million. It is intended that the net proceeds will be applied as follows:

- (a) as to approximately HK\$70 million for the investment in Huaian Xinao;
- (b) as to approximately HK\$60 million for the acquisition of interest in the Existing Operator and investment in Yancheng Xinao;
- (c) as to approximately HK\$90 million for the investment in new piped gas distribution projects to be identified in Anhui Province, the PRC;
- (d) as to approximately HK\$90 million for the investment in new piped gas distribution projects to be identified in Jiangsu Province, the PRC; and
- (e) as to the balance for general corporate purposes, including further investments which are in line with the business objectives of the Company as described in the prospectus of the Company dated 27 April 2001.

The above projects contemplated are consistent with the Company's objective of expanding to new operational locations as described in the prospectus of the Company dated 27 April 2001. Should any of the above projects contemplated are not in line with the Company's objectives, the Company will obtain prior approval of independent Shareholders in accordance with Rule 17.25 of the GEM Listing Rules.

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EFFECTS OF THE SUBSCRIPTION ON THE COMPANY

The Subscription will broaden Shareholders' capital base with the net proceeds raised and provide necessary funding for the Group to further expand into new operational locations and strengthen the cashflow position of the Group. It is expected that the Subscription will have a dilution effect on the earnings of the Group on a per Share basis and an increase in the net asset value of the Group.

Shareholding structure

Set out below is the shareholding structure of the Company immediately before and after completion of the Placing and the Subscription:

Shareholder	Before completion of the Placing		Immediately after completion of the Placing		Immediately after completion of the Placing and the Subscription	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
The Vendor	420,000,000	67.0	310,000,000	49.4	420,000,000	57.0
Public shareholders	207,000,000	33.0	317,000,000	50.6	317,000,000	43.0
Total	<u>627,000,000</u>	<u>100.0</u>	<u>627,000,000</u>	<u>100.0</u>	<u>737,000,000</u>	<u>100.0</u>

GENERAL

The Shares were listed on GEM on 10 May 2001. As disclosed in the prospectus of the Company dated 27 April 2001, each of Easywin, Mr. Wang and Ms. Zhao has undertaken to the Stock Exchange and Rothschild that it, he or she will not dispose of any of its, his or her respective direct or indirect interests in its, his or her holding in the Shares (representing 420,000,000 Shares) during the second six months after listing of the Shares on GEM (from 10 November 2001 to 9 May 2002) such that they would after such disposal cease to have control over an aggregate of 35% of the issued share capital of the Company (i.e. 257,950,000 Shares). As such 162,050,000 Shares are freely transferable by each of Easywin, Mr. Wang and Ms. Zhao.

Application for a waiver from the requirement that any shareholders who has an interest in the Subscription to abstain from voting and will not accept written approval for the Subscription pursuant to Rule 19.41 of the GEM Listing Rules has been submitted to GEM on 12 March 2002 on the basis that the interest of the Vendor is the same as all the other minority shareholders of the Company since:

- (a) the number of Subscription Shares to be subscribed for by the Vendor would be the same as the number of Placing Shares;
- (b) the subscription price for the Subscription Shares will be same as the Placing Price (net of expenses);
- (c) the number of Shares held by the Vendor both immediately before and after the completion of the Placing and the Subscription will be the same, and accordingly, the Vendor has no economic interest in the Placing and the Subscription.

LETTER FROM THE BOARD

GEM has granted the waiver to the Company from the strict compliance with Rule 19.41 of the GEM Listing Rules, whereby the Subscription may be approved by a written certificate of approval to be given by Easywin and the Company need not hold a general meeting to consider and approve the Subscription. Easywin has approved the Subscription by giving a certificate approval in writing.

Your attention is drawn to the general information set out in the appendix to this circular.

By order of the Board
XINAO GAS HOLDINGS LIMITED
WANG Yusuo
Chairman

1. SHARE CAPITAL

<i>Authorised share capital:</i>	<i>HK\$</i>
<u>3,000,000,000</u> Shares	<u>300,000,000</u>
<i>Issued share capital:</i>	<i>HK\$</i>
<u>737,000,000</u> Shares in issue as at the Latest Practicable Date	<u>73,700,000</u>

2. FINANCIAL STATEMENTS

(a) Consolidated income statements

Set out below is a summary of the audited consolidated income statements of the Group for each of the three financial years ended 31 December 2001 which are extracted from the audited consolidated financial statements of the Group for the financial year ended 31 December 2001 and the Company's prospectus dated 27 April 2001. The notes thereon are extracted from the audited consolidated financial statements of the Group for the financial year ended 31 December 2001.

	<i>Notes</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>	1999 <i>RMB'000</i>
Turnover	3	240,560	122,270	52,923
Cost of sales		<u>(97,429)</u>	<u>(58,362)</u>	<u>(23,492)</u>
Gross profit		143,131	63,908	29,431
Other revenue	4	7,946	945	793
Tax refund	5	5,388	5,180	2,656
Selling expenses		(4,446)	(2,041)	(273)
Administrative expenses		(40,780)	(9,153)	(3,690)
Other operating expenses		<u>(1,323)</u>	<u>(357)</u>	<u>(45)</u>
Profit from operations	6	109,916	58,482	28,872
Finance costs	8	<u>(10,318)</u>	<u>(8,112)</u>	<u>(3,300)</u>
Profit before taxation		99,598	50,370	25,572
Taxation	9	<u>(11,081)</u>	<u>(6,976)</u>	<u>(3,836)</u>
Profit before minority interests		88,517	43,394	21,736
Minority interests		<u>(9,250)</u>	<u>(6,018)</u>	<u>(6,653)</u>
Profit for the year		<u><u>79,267</u></u>	<u><u>37,376</u></u>	<u><u>15,083</u></u>
Dividends	10	<u><u>–</u></u>	<u><u>30,529</u></u>	<u><u>–</u></u>
Earnings per share	11	<u><u>14.3 cents</u></u>	<u><u>8.9 cents</u></u>	<u><u>3.6 cents</u></u>

(b) Consolidated balance sheets

Set out below are the audited consolidated balance sheets of the Group and the audited balance sheet of Company as at 31 December 2000 and 2001. There, together with the notes thereon, are extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2001.

Consolidated balance sheets of the Group

	<i>Notes</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	<i>12</i>	409,889	260,999
Goodwill	<i>13</i>	7,787	–
Negative goodwill	<i>14</i>	(1,852)	–
		<u>415,824</u>	<u>260,999</u>
Current assets			
Inventories	<i>16</i>	31,994	12,903
Trade and other receivables	<i>17</i>	78,122	39,580
Amounts due from customers for contract work	<i>18</i>	11,778	4,143
Amounts due from related companies	<i>19</i>	3,115	74,548
Amount due from ultimate holding company	<i>20</i>	–	3,492
Bank balances and cash		182,472	39,366
		<u>307,481</u>	<u>174,032</u>
Current liabilities			
Trade and other payables	<i>21</i>	93,313	61,472
Amounts due to customers for contract work	<i>18</i>	16,364	5,505
Amounts due to related companies	<i>22</i>	13,660	90,482
Dividend payable to minority shareholder of a subsidiary		–	1,625
Amount due to ultimate holding company	<i>23</i>	–	81,374
Bank loans – due within one year	<i>25</i>	74,933	87,392
Tax payable		2,925	6,657
		<u>201,195</u>	<u>334,507</u>
Net current assets (liabilities)		<u>106,286</u>	<u>(160,475)</u>
Total assets less current liabilities		<u>522,110</u>	<u>100,524</u>
Non-current liabilities			
Bank loans – due after one year	<i>25</i>	48,215	20,915
Deferred taxation	<i>26</i>	3,730	–
		<u>51,945</u>	<u>20,915</u>
Minority interests		17,504	9,779
		<u>452,661</u>	<u>69,830</u>
Capital and reserves			
Share capital	<i>27</i>	66,462	–
Reserves	<i>29</i>	386,199	69,830
		<u>452,661</u>	<u>69,830</u>

Balance sheet of the Company

	<i>Notes</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Non-current asset			
Interest in subsidiaries	15	315,868	–
Current assets			
Deposits and prepayments		4,994	–
Bank balances and cash		49,443	–
		54,437	–
Current liabilities			
Amounts due to subsidiaries	24	54,060	–
Net current assets		377	–
		<u>316,245</u>	<u>–</u>
Capital and reserves			
Share capital	27	66,462	–
Reserves	29	249,783	–
		<u>316,245</u>	<u>–</u>

(c) Consolidated statement of recognised gains and losses*For the year ended 31 December 2001*

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Net surplus arising on valuation of land and buildings not recognised in the consolidated income statement	8,725	–
Profit for the year	79,267	37,376
Total recognised gains	87,992	37,376
Negative goodwill arising on acquisition of subsidiaries	–	5,590
	<u>87,992</u>	<u>42,966</u>

(d) Consolidated cash flow statement

For the year ended 31 December 2001

	<i>Notes</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Net cash inflow from operating activities	30	82,245	84,165
Returns on investments and servicing of finance			
Interest received		2,875	202
Bank interest paid		(10,318)	(8,386)
Dividend paid		–	(30,529)
Dividends paid to minority shareholders		(2,975)	(13,471)
Net cash outflow from returns on investments and servicing of finance		(10,418)	(52,184)
Taxation			
PRC enterprise income tax paid		(14,813)	(7,433)
Tax refunded		10,568	–
Net cash outflow from taxation		(4,245)	(7,433)
Investing activities			
Purchase of property, plant and equipment		(111,154)	(24,206)
Acquisition of subsidiaries	31	(31,420)	(27,869)
Increase in interest in subsidiaries		(11,390)	(19,821)
Proceeds from disposal of property, plant and equipment		2,907	–
Net cash outflow from investing activities		(151,057)	(71,896)
Net cash outflow before financing		(83,475)	(47,348)
Financing	32		
Proceeds from shares issued		252,333	–
Shares issue expenses		(38,868)	–
Contribution from minority shareholders		1,333	–
New loans raised		86,977	68,507
Repayment of bank loans		(75,194)	(34,755)
Advance from ultimate holding company		–	51,186
Net cash inflow from financing		226,581	84,938
Increase in cash and cash equivalents		143,106	37,590
Cash and cash equivalents at beginning of the year		39,366	1,776
Cash and cash equivalents at end of the year		182,472	39,366
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		182,472	39,366

(e) Notes to the audited consolidated financial statements

For the year ended 31 December 2001

1. GROUP RESTRUCTURING AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 20 July 2000 as an exempt company under the Companies Law of the Cayman Islands and its shares have been listed on The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 10 May 2001. 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 41.

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

Details of the reorganisation are set out in the prospectus dated 27 April 2001 issued by the Company. The principal stages of the reorganisation which involved the exchange of shares, as the shares of the Company were issued and allotted to Easywin for the acquisition by the Company the entire issued share capital of Xinao Gas Investment Group Limited, the then holding company of the Group, from Easywin. The Group resulting from the reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared with the principles of merger accounting in accordance with the Statement of Standard Accounting Practice 27 “Accounting for group reconstructions”.

2. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

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

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

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

Goodwill (cont'd)

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

Revenue recognition

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Land use rights	Over the shorter of the term of the lease or the operation period of the relevant company
Buildings	Over the shorter of 30 years or the operation period of the relevant company
Pipelines	Over the shorter of 30 years or the operation period of the relevant company
Machinery and equipment	10 years
Motor vehicles	6 years
Office equipment	6 years

Construction in progress

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

Investments in subsidiaries

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

Borrowing costs

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

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

Inventories

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

Construction contracts

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

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

Research and development costs

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

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

Taxation

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

Foreign currencies

The Company and its subsidiaries maintain their books and records in Renminbi ("RMB"), the currency of which the majority of transactions are conducted. Transactions denominated in currencies other than RMB are translated 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 ("PRC").

Operating leases

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) 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 standard, in which case the reversal of impairment loss is treated as a revaluation increase.

3. TURNOVER

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Turnover comprises the following:		
Gas connection fees	184,796	101,282
Sales of gas	50,594	20,517
Sales of gas appliances	5,170	471
	<u>240,560</u>	<u>122,270</u>

4. OTHER REVENUE

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Other revenue comprises the following:		
Interest income	2,875	202
Income from rented premises under operating leases	1,805	–
Management fee income	264	–
Release of negative goodwill	96	–
Sundry income	2,906	743
	<u>7,946</u>	<u>945</u>

5. TAX REFUND

During the year, Langfang Xinao Gas Company Limited and Xinao Langfang Investment Limited, subsidiaries of the Company, applied for a refund of part of the income tax paid as an incentive for the investments in Langfang, the PRC, amounting to RMB5,388,000 (2000: RMB5,180,000). The application was approved by the relevant government authorities. The tax refund was recorded in the year when the relevant approval was obtained.

6. PROFIT FROM OPERATIONS

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Profit from operations has been arrived at after charging:		
Amortisation of goodwill	410	–
Auditors' remuneration	947	15
Depreciation and amortisation of property, plant and equipment	12,887	5,863
Loss on disposal of property, plant and equipment	143	2,035
Minimum lease payments under operating leases in respect of land and buildings	921	481
Provision for bad and doubtful debts	2,180	277
Research and development expenses	752	762
Staff costs	22,611	5,257
Less: Amount capitalised under construction in progress	–	(451)
	<u>22,611</u>	<u>4,806</u>

7. REMUNERATION OF DIRECTORS AND EMPLOYEES

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Directors		
Fees	191	–
Salaries and other benefits	3,357	–
Performance related incentive payments	235	–
Retirement benefits scheme contributions	15	–
	<u>3,798</u>	<u>–</u>
Analysed into:		
Director A	1,148	–
Director B	769	–
Director C	402	–
Director D	402	–
Director E	491	–
Director F	395	–
Director G	64	–
Director H	64	–
Director I	63	–
	<u>3,798</u>	<u>–</u>

The amounts disclosed above include directors' fees of RMB127,000 (2000: nil) payable to independent non-executive directors. None of the directors waived any emoluments in both years.

7. REMUNERATION OF DIRECTORS AND EMPLOYEES (cont'd)

Employees

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

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Salaries and other benefits	3,303	141
Performance related incentive payments	107	–
Retirement benefits scheme contributions	16	6
	<u>3,426</u>	<u>147</u>
	2001 Number of individuals	2000 Number of individuals
Emoluments of the five highest paid individuals were within the following band:		
Nil – HK\$1,000,000	4	5
HK\$1,000,001 – HK\$1,500,000	<u>1</u>	<u>–</u>
Number of directors	3	–
Number of employees	<u>2</u>	<u>5</u>
	<u>5</u>	<u>5</u>

8. FINANCE COSTS

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Interest on bank borrowings wholly repayable within five years	10,318	8,386
Less: Amount capitalised under construction in progress	–	(274)
	<u>10,318</u>	<u>8,112</u>

No interest was capitalised during the year. The annual capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation in 2000 was 6.34%.

9. TAXATION

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

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

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

10. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

The comparative figure in 2000 represented the dividends declared by Langfang Xinao Gas Company Limited, paid to its then shareholders prior to the group reorganisation.

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the profit for the year of approximately RMB79,267,000 (2000: RMB37,376,000) and the weighted average of 553,446,575 (2000: 420,000,000) shares in issue during the year.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Con- struction in progress RMB'000	Total RMB'000
THE GROUP							
COST/VALUATION							
At 1 January 2001	85,986	153,545	15,902	10,272	2,243	13,674	281,622
Acquired on acquisition of subsidiaries	8,996	19,103	2,012	1,513	535	10,099	42,258
Additions	5,687	4,682	5,376	4,255	2,010	89,144	111,154
Surplus on valuation	12,319	–	–	–	–	–	12,319
Reclassification	5,636	65,743	(10,418)	2,066	–	(63,027)	–
Disposals	(800)	(1,690)	(4)	(570)	(396)	(20)	(3,480)
At 31 December 2001	117,824	241,383	12,868	17,536	4,392	49,870	443,873
Comprising:							
At cost	12,694	241,383	12,868	17,536	4,392	49,870	338,743
At valuation	105,130	–	–	–	–	–	105,130
	117,824	241,383	12,868	17,536	4,392	49,870	443,873
DEPRECIATION AND AMORTISATION							
At 1 January 2001	4,010	13,353	501	2,281	478	–	20,623
Acquired on acquisition of subsidiaries	327	50	427	282	35	–	1,121
Provided for the year	3,703	5,612	764	2,421	387	–	12,887
Eliminated on valuation	(217)	–	–	–	–	–	(217)
Reclassification	–	267	(267)	–	–	–	–
Eliminated on disposals	–	(282)	(2)	(144)	(2)	–	(430)
At 31 December 2001	7,823	19,000	1,423	4,840	898	–	33,984
NET BOOK VALUES							
At 31 December 2001	110,001	222,383	11,445	12,696	3,494	49,870	409,889
At 31 December 2000	81,976	140,192	15,401	7,991	1,765	13,674	260,999

The land and buildings are situated in the PRC with medium term land use rights.

In preparing the listing of the Company's shares on GEM, the Group revalued all of its land and buildings as at 31 January 2001, resulting in a revaluation surplus of RMB12,536,000 which has been credited to the revaluation reserve. The valuation was carried out by Chesterton Petty Limited, a firm of professionally qualified valuers, on open market value basis. The carrying value of these revalued land and buildings amounted to RMB105,130,000 at 31 December 2001. If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation of RMB92,984,000.

13. GOODWILL

	THE GROUP <i>RMB'000</i>
GROSS AMOUNT	
Arising on acquisition during the year and balance at 31 December 2001	8,197
AMORTISATION	
Charge for the year and balance at 31 December 2001	<u>(410)</u>
CARRYING VALUE	
At 31 December 2001	<u><u>7,787</u></u>

The amortisation period adopted for goodwill is 20 years.

14. NEGATIVE GOODWILL

	THE GROUP <i>RMB'000</i>
GROSS AMOUNT	
Arising on acquisition during the year and balance at 31 December 2001	1,948
RELEASED TO INCOME	
Released in the year and balance at 31 December 2001	<u>(96)</u>
CARRYING AMOUNT	
At 31 December 2001	<u><u>1,852</u></u>

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

15. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	20,564	–
Amounts due from subsidiaries	<u>295,304</u>	<u>–</u>
	<u><u>315,868</u></u>	<u><u>–</u></u>

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 41.

16. INVENTORIES

	THE GROUP	
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Construction materials	27,722	10,988
Gas appliances	2,056	1,534
Piped gas	440	169
Spare parts and consumables	1,776	212
	<u>31,994</u>	<u>12,903</u>

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

17. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 75 days to its trade customers.

	THE GROUP	
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
The following is an aging analysis of trade receivable:		
0 – 3 months	35,707	7,719
4 – 6 months	18,412	7,692
7 – 9 months	2,354	2,934
10 – 12 months	1,520	603
More than 1 year	3,993	–
Trade receivable	61,986	18,948
Amount due from an officer	4,456	–
Prepayments, deposits and other receivables	11,680	20,632
	<u>78,122</u>	<u>39,580</u>

The amount due from an officer represents the amount advanced to Ms. Lam Hiu Ha, the Head of Hong Kong Office, which is unsecured, interest free and repayable on demand. The maximum amount outstanding during the year amounted to RMB4,456,000.

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

	THE GROUP	
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Contract costs incurred plus recognised profits less anticipated losses	225,968	91,019
Less: Progress billings	(230,554)	(92,381)
	<u>(4,586)</u>	<u>(1,362)</u>
Analysed for reporting purposes as:		
Amounts due from customers for contract work	11,778	4,143
Amounts due to customers for contract work	(16,364)	(5,505)
	<u>(4,586)</u>	<u>(1,362)</u>

19. AMOUNTS DUE FROM RELATED COMPANIES

THE GROUP

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

Name of company	Balance at 31.12.2001 RMB'000	Balance at 1.1.2001 RMB'000	Maximum amount outstanding during the year RMB'000
北京市密雲化工公司 ("Beijing City Miyun Chemicals Company")	1,445	1,445	1,445
新奧集團石家莊化工機械股份有限公司 ("Xinao Group Shijiazong Chemical and Machinery Company Limited")	800	322	2,000
諸城市燃氣熱力總公司 ("Zhucheng City Gas and Heating Corporation")	501	-	501
廊坊新城房地產開發有限公司 ("Langfang Xincheng Property Development Company Limited")	369	-	369
廊坊市天然氣有限公司 ("Langfang City Natural Gas Company Limited")	-	29,876	29,876
廊坊開發區市政建設工程有限公司 ("Langfang Development Zone Urban Construction Engineering Company Limited")	-	20,400	20,400
Newstar Australia Pty. Ltd.	-	17,253	17,253
廊坊新奧物業管理有限公司 ("Langfang Xinao Property Management Company Limited")	-	2,745	2,745
廊坊新奧建築安裝工程有限公司 ("Langfang Xinao Construction and Decoration Engineering Company Limited")	-	2,000	2,000
北京新奧京昌燃氣有限公司 ("Beijing Xinao Jingchang Gas Company Limited")*	-	202	202
廊坊新奧酒店管理有限公司 ("Langfang Xinao Hotel Management Company Limited")	-	136	136
新奧集團太陽能有限公司 ("Xinao Group Solar Energy Company Limited")	-	100	100
北京新奧京谷燃氣有限公司 ("Beijing Xinao Jinggu Gas Company Limited")*	-	58	58
青島新奧燃氣有限公司 ("Qingdao Xinao Gas Company Limited")*	-	10	10
新奧集團股份有限公司 ("Xinao Group Company Limited")	-	1	326
	<u>3,115</u>	<u>74,548</u>	

All the above related companies are controlled by Mr. Wang Yusuo ("Mr. Wang") except for Beijing City Miyun Chemicals Company, which is the minority shareholder of Beijing Xinao Gas Company Limited, Zhucheng City Gas and Heating Corporation, which is the minority shareholder of Zhucheng Xinao Gas Company Limited and Newstar Australia Pty. Ltd., which is controlled by Ms. Zhao Baoju ("Ms. Zhao").

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

* These companies were acquired by the Group during the year (see note 31).

20. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

THE GROUP

The amount was unsecured and interest free.

21. TRADE AND OTHER PAYABLES

THE GROUP

	2001 RMB'000	2000 RMB'000
The following is an aging analysis of trade payable:		
0 – 3 months	36,299	17,082
4 – 6 months	8,120	7,163
7 – 9 months	5,306	4,833
10 – 12 months	3,043	9,475
More than 1 year	9,155	1,317
	<hr/>	<hr/>
Trade payable	61,923	39,870
Advances received from customers	3,673	4,682
Accrued charges and other payables	27,717	16,920
	<hr/>	<hr/>
	<u>93,313</u>	<u>61,472</u>

22. AMOUNTS DUE TO RELATED COMPANIES

THE GROUP

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

Name of company	2001 RMB'000	2000 RMB'000
Langfang City Natural Gas Company Limited	10,000	1,023
北京市昌平市政經濟發展總公司 (“Beijing City Changping Urban Economic Development Head Corporation”)	3,077	–
Xinao Group Shijiazhong Chemical and Machinery Company Limited	583	–
Xinao Group Company Limited	–	73,176
Langfang Xincheng Property Development Company Limited	–	10,346
Langfang Development Zone Urban Construction Engineering Company Limited	–	4,000
Beijing Xinao Jinggu Gas Company Limited*	–	1,312
Xinao Group Solar Energy Company Limited	–	503
Langfang Xinao Construction and Decoration Engineering Company Limited	–	122
	<hr/>	<hr/>
	<u>13,660</u>	<u>90,482</u>

All the above related companies are controlled by Mr. Wang except for Beijing City Changping Urban Economic Development Head Corporation which is the minority shareholder of Changping Xinao Gas Company Limited. The amounts are unsecured, interest free and repayable on demand.

* The company was acquired by the Group during the year (see note 31).

23. AMOUNT DUE TO ULTIMATE HOLDING COMPANY**THE GROUP**

The amount was unsecured and interest free. The amount was fully capitalised during the year (see note 27(d)).

24. AMOUNTS DUE TO SUBSIDIARIES**THE COMPANY**

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

25. BANK LOANS

	THE GROUP	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank loans	48,737	51,507
Unsecured bank loans	74,411	56,800
	<u>123,148</u>	<u>108,307</u>
The bank loans are repayable:		
Within one year	74,933	87,392
Between one to two years	37,798	20,210
Between two to five years	10,417	705
	<u>123,148</u>	<u>108,307</u>
<i>Less: Amount due within one year shown under current liabilities</i>	<u>(74,933)</u>	<u>(87,392)</u>
Amount due after one year	<u>48,215</u>	<u>20,915</u>

26. DEFERRED TAXATION

At the balance sheet date, the Group had deferred taxation amounting to RMB3,730,000 (2000: nil) arising on valuation of properties.

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

27. SHARE CAPITAL

	2001	2000	2001	2000
	Number of shares		HK\$'000	HK\$'000
Shares of HK\$0.10 each				
<i>Authorised:</i>				
At beginning of the year	1,000,000	–	100	–
Incorporation of the Company (note a)	–	1,000,000	–	100
Increase on 28 March 2001 (note c)	2,999,000,000	–	299,900	–
At end of the year	<u>3,000,000,000</u>	<u>1,000,000</u>	<u>300,000</u>	<u>100</u>
<i>Issued and fully paid:</i>				
At beginning of the year	10	–	–	–
Incorporation of the Company (note a)	–	2	–	–
Allotted on 21 August 2000 (note b)	–	8	–	–
Share exchange upon reorganisation (note c)	193,999,990	–	19,400	–
Capitalisation issue (note d)	226,000,000	–	22,600	–
Issue of shares on placing (note e)	180,000,000	–	18,000	–
Issue of shares on over-allotment (note f)	27,000,000	–	2,700	–
At end of the year	<u>627,000,000</u>	<u>10</u>	<u>62,700</u>	<u>–</u>
			RMB'000	RMB'000

Presented in financial statements as:

At beginning of the year	–	–
Incorporation of the Company (note a)	–	–
Allotted on 21 August 2000 (note b)	–	–
Share exchange upon reorganisation (note c)	20,564	–
Capitalisation issue (note d)	23,956	–
Issue of shares on placing (note e)	19,080	–
Issue of shares on over-allotment (note f)	2,862	–
At end of the year	<u>66,462</u>	<u>–</u>

Notes:

- (a) On 20 July 2000, the Company was incorporated with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of nominal value of HK\$0.10 each. On the same date, two shares were allotted and issued to the initial subscribers and each of such shares was then transferred to Mr. Wang and Ms. Zhao, respectively on 21 August 2000.
- (b) On 21 August 2000, the Company allotted eight shares at par as to seven shares to Mr. Wang and as to one share to Ms. Zhao, all of which were issued for cash at par.
- (c) On 28 March 2001, the Company increased its authorised share capital from HK\$100,000 to HK\$300,000,000, by the creation of an additional 2,999,000,000 shares and allotted and issued in aggregate 193,999,990 shares to Easywin credited as fully paid at HK\$19,399,999 in total for the acquisition by the Company of the entire issued share capital of Xinao Gas Investment Group Limited from Easywin.

27. SHARE CAPITAL (Cont'd)

- (d) On 9 May 2001, 226,000,000 shares were issued and credited as fully paid to Easywin by capitalising RMB81,374,000 (equivalent to approximately HK\$76,768,000) due from the Group to Easywin.
- (e) On 9 May 2001, 180,000,000 shares of HK\$0.10 each were issued at HK\$1.15 per share through an initial public offering by way of placing.
- (f) On 22 May 2001, 27,000,000 shares of HK\$0.10 each were issued at HK\$1.15 per share pursuant to the over-allotment option under the initial public offering aforesaid.

These shares rank *pari passu* with the existing shares in all respects. The net proceeds from shares issued under the initial public offering were used as general working capital and expansion of the Group.

28. SHARE OPTION SCHEME

Pursuant to the Company's share option scheme adopted on 24 April 2001 (the "Scheme"), the board of directors of the Company may, at its discretion, invite any executive directors and full time employees of the Group to take up options at HK\$1.00 per option to subscribe for shares in the Company at an exercise price equal to at least the highest of (a) the closing price of the Company's shares on the Stock Exchange on the date of grant and (b) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (c) the nominal value of the Company's share.

No share option was granted under the Scheme since its adoption and up to 31 December 2001.

29. RESERVES

	THE GROUP		THE COMPANY	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
SHARE PREMIUM				
At beginning of the year	-	-	-	-
Arising on capitalisation issue (note 27(d))	57,418	-	57,418	-
Arising on shares issued upon initial public offering	230,391	-	230,391	-
Shares issue expenses	(38,868)	-	(38,868)	-
At end of the year	248,941	-	248,941	-
SPECIAL RESERVE				
At beginning of the year	21,731	21,731	-	-
Share exchange upon reorganisation (note 27(c))	(20,564)	-	-	-
At end of the year	1,167	21,731	-	-
GOODWILL RESERVE				
At beginning of the year	5,590	-	-	-
Negative goodwill arising on acquisition of businesses and subsidiaries	-	5,590	-	-
At end of the year	5,590	5,590	-	-
RETAINED PROFITS				
At beginning of the year	42,509	35,662	-	-
Profit for the year	79,267	37,376	842	-
Dividend	-	(30,529)	-	-
At end of the year	121,776	42,509	842	-
REVALUATION RESERVE				
At beginning of the year	-	-	-	-
Surplus arising on valuation of land and buildings	12,536	-	-	-
Tax effect on valuation surplus	(3,730)	-	-	-
Share of valuation surplus by minority shareholders	(81)	-	-	-
At end of the year	8,725	-	-	-
TOTAL RESERVES	386,199	69,830	249,783	-

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 RMB249,783,000 (2000: nil).

30. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Profit before taxation	99,598	50,370
Loss on disposal of property, plant and equipment	143	2,035
Depreciation of property, plant and equipment	12,887	5,863
Amortisation of goodwill	410	–
Release of negative goodwill	(96)	–
Tax refund	(5,388)	(5,180)
Interest income	(2,875)	(202)
Interest expenses	10,318	8,112
Increase in inventories	(12,669)	(1,612)
Increase in trade and other receivables	(20,395)	(26,484)
Increase in amounts due from customers for contract work	(7,635)	(4,143)
Decrease in amounts due from related companies	71,433	5,405
Decrease (increase) in amount due from ultimate holding company	3,492	(3,492)
(Decrease) increase in trade and other payables	(1,015)	16,001
Increase in amounts due to customers for contract work	10,859	5,505
(Decrease) increase in amounts due to related companies	(76,822)	31,987
	<u>82,245</u>	<u>84,165</u>
Net cash inflow from operating activities	<u>82,245</u>	<u>84,165</u>

31. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2000 and 2001, the Group acquired the following companies, particulars of which are as follows:

For the year ended 31 December 2000

Name of subsidiary	Acquired company	Equity interest acquired	Consideration <i>RMB'000</i>	Date of acquisition
Xinao Miyun Investment Limited	Beijing Xinao Gas Company Limited	80%	7,930	30 July 2000
Xinao Huludao Investment Limited	Huludao Xinao Gas Company Limited	90%	9,011	3 August 2000
Xinao Liaocheng Investment Limited	Liaocheng Xinao Gas Company Limited	90%	14,424	7 August 2000

For the year ended 31 December 2001

Name of subsidiary	Acquired company	Equity interest acquired	Consideration <i>RMB'000</i>	Date of acquisition
Xinao Huangdao Investment Limited	Qingdao Xinao Gas Company Limited	90%	18,232	23 May 2001
Xinao Pinggu Investment Limited	Beijing Xinao Jinggu Gas Company Limited	70%	6,996	18 June 2001
Xinao Changping Investment Limited	Beijing Xinao Jingchang Gas Company Limited	80%	7,920	16 August 2001

31. ACQUISITION OF SUBSIDIARIES (cont'd)

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

	2001 RMB'000	2000 RMB'000
Net assets acquired		
Property, plant and equipment	41,137	64,026
Inventories	6,422	8,419
Trade and other receivables	23,327	6,701
Amounts due from related companies	–	7,503
Bank balances and cash	1,728	3,496
Tax recoverable	–	105
Trade and other payables	(32,856)	(24,504)
Amounts due to related companies	–	(3,068)
Tax payable	–	(889)
Bank loans	(3,058)	(24,800)
Minority interests	(6,387)	(4,560)
	<u>30,313</u>	<u>32,429</u>
Goodwill (negative goodwill)	2,835	(1,064)
	<u>33,148</u>	<u>31,365</u>
Satisfied by		
Cash consideration	<u>33,148</u>	<u>31,365</u>
Outflow of cash and cash equivalents arising on acquisition		
Cash consideration	33,148	31,365
Bank balances and cash acquired	(1,728)	(3,496)
	<u>31,420</u>	<u>27,869</u>

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

	2001 RMB'000	2000 RMB'000
Results		
Contribution to the Group's turnover	36,888	24,980
Contribution to the Group's profit for the year	<u>16,265</u>	<u>6,636</u>
Cash flows		
Contribution to the Group's net operating cash flows	38,703	12,712
Payment in respect of the net returns on investments and servicing of finance	(116)	(703)
Payment in respect of taxation	(59)	(902)
Utilisation of funds for investing activities	(34,926)	(9,268)
Fund (utilised) raised in respect of financing activities	<u>(17)</u>	<u>521</u>

32. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
SHARE CAPITAL AND PREMIUM		
At beginning of the year	–	–
Capitalisation issue	81,374	–
Share exchange upon reorganisation	20,564	–
Shares issued upon initial public offering	252,333	–
Shares issue expenses	(38,868)	–
	<u>315,403</u>	<u>–</u>
At end of the year	<u>315,403</u>	<u>–</u>
MINORITY INTERESTS		
At beginning of the year	9,779	38,644
Contribution from minority shareholders	1,333	–
On acquisition of subsidiaries	6,387	4,560
Share of profits and reserves by minority shareholders of subsidiaries	9,331	6,018
Dividend paid	(1,350)	(13,471)
Dividend payable	–	(1,625)
Increase in interest in subsidiaries	(7,976)	(24,347)
	<u>17,504</u>	<u>9,779</u>
At end of the year	<u>17,504</u>	<u>9,779</u>
BANK LOANS		
At beginning of the year	108,307	49,755
New loans raised	86,977	68,507
On acquisition of subsidiaries	3,058	24,800
Repayments	(75,194)	(34,755)
	<u>123,148</u>	<u>108,307</u>
At end of the year	<u>123,148</u>	<u>108,307</u>
AMOUNT DUE TO ULTIMATE HOLDING COMPANY		
At beginning of the year	81,374	30,188
Advance during the year	–	51,186
Capitalisation issue	(81,374)	–
	<u>–</u>	<u>81,374</u>
At end of the year	<u>–</u>	<u>81,374</u>

33. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2001, the Company acquired the entire issued share capital of Xinao Gas Investment Group Limited from Easywin by way of share exchange (see note 27(c)) and also capitalised the amount due to Easywin (see note 27(d)).

During the year ended 31 December 2000, the Group acquired property, plant and equipment amounting to RMB83,471,000 which were settled by setting off against the amounts due from related companies.

34. CAPITAL COMMITMENTS

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for in the financial statements	<u>2,375</u>	<u>3,311</u>

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:

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Within one year	997	549
In the second to fifth years inclusive	1,915	583
Over five years	188	–
	<u>3,100</u>	<u>1,132</u>

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

The Group as lessor

Certain of the Group's properties with a carrying amount of RMB21,115,000 (2000: nil) are held for rental purposes. The depreciation charge of these properties amounted to RMB1,559,000 (2000: nil) 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:

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Within one year	1,805	–
In the second to fifth years inclusive	1,805	–
	<u>3,610</u>	<u>–</u>

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 general credit facilities granted as follows:

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Property, plant and equipment	<u>48,737</u>	<u>130,235</u>

37. RELATED PARTY TRANSACTIONS

Name of related party	Nature of transaction	2001	2000
		RMB'000	RMB'000
Langfang Xincheng Property Development Company Limited	Provision of gas connection services by the Group (<i>Note i</i>)	7,785	11,360
	Acquisition of land and buildings by the Group (<i>Note iv</i>)	–	7,600
Langfang Xinao Hotel Management Company Limited	Provision of gas connection services by the Group (<i>Note i</i>)	–	453
	Sales of gas by the Group (<i>Note ii</i>)	885	125
Langfang Xinao Property Management Company Limited	Provision of gas connection services by the Group (<i>Note i</i>)	330	82
	Sales of gas by the Group (<i>Note ii</i>)	6,690	3,927
	Provision for management services to the Group (<i>Note iii</i>)	1,056	–
	Lease of premises by the Group (<i>Note v</i>)	330	–
Xinao Group Solar Energy Company Limited	Sales of gas by the Group (<i>Note ii</i>)	46	65
Langfang City Natural Gas Company Limited	Acquisition of land and buildings by the Group (<i>Note iv</i>)	–	540
	Acquisition of pipelines and related facilities (<i>Note iv</i>)	–	27,431
Xinao Group Company Limited	Sales of gas by the Group (<i>Note ii</i>)	362	525
	Acquisition of land and buildings by the Group (<i>Note iv</i>)	–	47,900
	Lease of premises by the Group (<i>Note v</i>)	1,475	–
	Reimbursement of management fee (<i>Note v</i>)	264	–
	Lease of premises to the Group (<i>Note v</i>)	136	–
Xinao Group Shijiazhong Chemical and Machinery Company Limited	Acquisition of compressed natural gas truck trailers, pressure regulating and gas equipment (<i>Note vi</i>)	<u>7,755</u>	<u>–</u>

Notes:

- (i) The provision of gas connection services was charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (ii) The sales of gas were charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (iii) The provision of management services was determined in accordance to the contract entered into between the Group and the related company.
- (iv) The consideration for the acquisition of property, plant and equipment from the related parties during the year ended 31 December 2000 was determined by reference to valuation made by an independent valuer.
- (v) Rental for lease of premises and reimbursement of management fee were determined in accordance to the contracts entered into between the Group and the related companies.

37. RELATED PARTY TRANSACTIONS (*cont'd*)

- (vi) 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.

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.

38. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently divided into three divisions, gas connection, sales of 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:

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

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

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:

	2001 RMB'000	2000 RMB'000
Assets:		
Segment assets		
– gas connection fees	71,452	26,645
– sales of gas	57,428	6,549
– sales of gas appliances	11,177	756
– unallocated segment assets	320,492	200,053
Unallocated corporate assets	262,756	201,028
	<u>723,305</u>	<u>435,031</u>
Liabilities:		
Segment liabilities		
– gas connection fees	50,600	16,563
– sales of gas	19,831	8,220
– sales of gas appliances	2,740	–
– unallocated segment liabilities	26,369	37,443
Unallocated corporate liabilities	153,600	293,196
	<u>253,140</u>	<u>355,422</u>

(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. RETIREMENT BENEFITS SCHEMES

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 schemes to fund the retirement benefits of their employees. With effect from 1 December 2000, 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 schemes 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.

	2001 RMB'000	2000 RMB'000
Retirement benefit contribution made during the year	<u>1,167</u>	<u>377</u>

40. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events took place:

- (a) On 4 February 2002, Yantai Xinao Gas Company Limited, a wholly owned subsidiary of the Company, entered into an agreement with Xinao Group Shijiazhong Chemical and Machinery Company Limited to purchase two compressed natural gas truck trailers with gas storage facility at a consideration of RMB1,700,000.
- (b) On 4 February 2002, Yangzhou Xinao Gas Company Limited, a wholly owned subsidiary of the Company, entered into an agreement with Xinao Group Shijiazhong Chemical and Machinery Company Limited to purchase pressure regulating equipment at a consideration of RMB800,000.
- (c) On 20 February 2002, the Company made an advance booking of an application for the proposed listing to the Main Board of the Stock Exchange by way of an introduction.

The Company has also informed the Stock Exchange of its intention to voluntary withdraw listing of its shares on GEM which will be conditional upon, among other things, the successful outcome of the application for the proposed listing of the shares on the Main Board.

41. PARTICULAR OF PRINCIPAL SUBSIDIARIES

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
北京新奧燃氣有限公司 ("Beijing Xinao Gas Company Limited")	The PRC	Registered capital US\$1,195,600	95%	Investment in gas pipeline infrastructure and provision of piped gas
北京新奧京昌燃氣有限公司 ("Beijing Xinao Jingchang Gas Company Limited")	The PRC	Registered capital RMB9,900,000	80%	Investment in gas pipeline infrastructure and provision of piped gas
北京新奧京谷燃氣有限公司 ("Beijing Xinao Jinggu Gas Company Limited")	The PRC	Registered capital RMB9,900,000	70%	Investment in gas pipeline infrastructure and provision of piped gas
蚌埠新奧燃氣有限公司 ("Bengbu Xinao Gas Company Limited")	The PRC	Registered capital RMB110,000,000	70%	Investment in gas pipeline infrastructure and provision of piped gas
葫蘆島新奧燃氣有限公司 ("Huludao Xinao Gas Company Limited")	The PRC	Registered capital US\$1,207,700	90%	Investment in gas pipeline infrastructure and provision of piped gas
廊坊新奧燃氣有限公司 ("Langfang Xinao Gas Company Limited")	The PRC	Registered capital US\$9,333,900	100%	Investment in gas pipeline infrastructure and provision of piped gas
廊坊新奧燃氣設備有限公司 ("Langfang Xinao Gas Equipment Company Limited")	The PRC	Registered capital US\$360,000	100%	Manufacture of stored value card gas metre

41. PARTICULAR OF PRINCIPAL SUBSIDIARIES (*cont'd*)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
聊城新奧燃氣有限公司 ("Liaocheng Xinao Gas Company Limited")	The PRC	Registered capital RMB16,000,000	90%	Investment in gas pipeline infrastructure and provision of piped gas
青島新奧燃氣有限公司 ("Qingdao Xinao Gas Company Limited")	The PRC	Registered capital RMB20,000,000	90%	Investment in gas pipeline infrastructure and provision of piped gas
青島新奧新城燃氣有限公司 ("Qingdao Xinao Xincheng Gas Company Limited")	The PRC	Registered capital US\$1,610,000	90%	Investment in gas pipeline infrastructure and provision of piped gas
新奧(中國)燃氣發展有限公司 ("Xinao (China) Gas Development Company Limited")	The PRC	Registered capital US\$6,000,000	100%	Sourcing of compressed natural gas
揚州新奧燃氣有限公司 ("Yangzhou Xinao Gas Company Limited")	The PRC	Registered capital US\$1,300,000	100%	Investment in gas pipeline infrastructure and provision of piped gas
煙台新奧燃氣有限公司 ("Yantai Xinao Gas Company Limited")	The PRC	Registered capital US\$2,100,000	100%	Investment in gas pipeline infrastructure and provision of piped gas
諸城新奧燃氣有限公司 ("Zhucheng Xinao Gas Company Limited")	The PRC	Registered capital US\$3,000,000	80%	Investment in gas pipeline infrastructure and provision of piped gas
Xinao Gas Investment Group Limited	British Virgin Islands	Share capital US\$1,000	100%	Investment holding

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

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

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

None of the subsidiaries had any loan capital subsisting as at 31 December 2001 or at any time during the year.

3. INDEBTEDNESS

Borrowings

As at the close of business on 28 February 2002, being the Latest Practicable Date for the purpose of preparing the indebtedness statement prior to the printing of this circular, the Group had outstanding bank borrowings of approximately RMB197,691,000, including approximately RMB139,502,000 which are repayable within one year, approximately RMB57,809,000 which are repayable between one to two years and approximately RMB380,000 which are repayable between two and five years. The bank borrowings comprised of secured bank loans of approximately RMB37,223,000 and unsecured bank loans of approximately RMB160,468,000.

Securities and guarantees

As at 28 February 2002, the Group's banking facilities were secured by the Group's property, plant and equipment with a net book value of approximately RMB55,611,000.

Contingent liabilities

As at 28 February 2002, the Group had no material contingent liabilities.

Disclaimers

As at 28 February 2002, save as aforesaid or otherwise disclosed in this circular, and apart from intra-group liabilities, the Group did not have:

- (a) any debt securities issued and outstanding, authorised or otherwise created but unissued, or term loans, whether guaranteed or unguaranteed, secured (whether the security is provided by the Company or by third parties) or unsecured;
- (b) any other borrowings or indebtedness including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed or unguaranteed, and whether secured or unsecured;
- (c) any mortgage or charge; or
- (d) any material contingent liabilities or guarantees.

The Directors have confirmed that there has not been any material change in the indebtedness, commitments or contingent liabilities of the companies comprising the Group since 28 February 2002.

4. SUFFICIENCY OF WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing financial resources and banking facilities available to the Group including its internally generated funds and remaining net proceeds from the placement of Shares in May 2001 and the net proceeds from the issue of new Shares in March 2002, the Group has sufficient working capital for its present requirements.

5. MATERIAL ADVERSE CHANGE

Save as disclosed herein, the Directors are not aware of any material adverse change in the Company's financial or trading position since 31 December 2001, being the date to which the latest audited financial statements of the Group were made up.

6. AUDIT COMMITTEE

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

The audit committee comprises two independent non-executive Directors (namely, Mr. Wang Guangtian and Mr. Xu Liang) and an executive Director (namely, Mr. Yu Jianchao). The background of the members are set out below:

Mr. Wang Guangtian, aged 38, is an independent non-executive Director appointed by the Company in March 2001. He holds a master's degree in World Economics from Hebei University and has over 20 years of experience in financial management and administrative management. He is currently the deputy general manager of Hebei Enterprises Limited (a company incorporated in Hong Kong) which is the window company for the Hebei Provincial Government in Hong Kong. He is also the general manager of Overseas Way (China) Limited (a company incorporated in Hong Kong).

Mr. Xu Liang, aged 61, is an independent non-executive Director appointed by the Company in March 2001. He studied coal gas engineering in 哈爾濱建築工程學院 (Harbin Architecture and Engineering College). He worked in the 中國市政工程華北設計研究院 (China Urban Engineering Huabei Design and Research Institute) for 36 years in research and design of urban gas supply and is now their consultant and chief engineer.

Mr. Yu Jianchao, aged 33, is the Finance Director. He joined the Group in January 1998. He graduated from the 河北財經學院 (Hebei Economics and Finance College) in 1993. Prior to joining the Group, Mr. Yu worked as the chief accountant for a number of foreign enterprises including 全興工業廊坊有限公司 (GSK Industry (China) Co., Ltd) and 日清中糧食品有限公司 (Nissin COFCO Foods Co. Ltd.). Mr. Yu has over 10 years of experience in accounting and finance.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

(a) Directors' interest in Shares

As at the Latest Practicable Date, the interests of the Directors and their respective associates in the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") of the Company or which required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

	Director interest	Personal interest	Family interest	Corporate interest	Other	Total
Mr. Wang	–	–	–	420,000,000 Shares	–	420,000,000 Shares (Note)
Ms. Zhao	–	–	–	420,000,000 Shares	–	420,000,000 Shares (Note)

Note: The two references to 420,000,000 Shares relate to the same block of Shares. Such Shares are held by Easywin, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao.

- (i) Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their associates had any personal, family, corporate or other interests in the Shares or any of its associated corporations as defined in the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, are required to be notified to the Company and the Stock Exchange.
- (ii) Saved as disclosed herein, since 31 December 2001, being the date to which the latest audited financial statements of the Group were made up, none of the Directors or proposed Directors has any interests, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(b) Substantial Shareholders

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

Name	Number of Shares held	Approximate percentage of shareholding
Easywin	420,000,000 (<i>Note</i>)	56.99%
Mr. Wang	420,000,000 (<i>Note</i>)	56.99%
Ms. Zhao	420,000,000 (<i>Note</i>)	56.99%

Note: The three references to 420,000,000 Shares relate to the same block of Shares. Such Shares are held by Easywin, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao.

3. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this document and are or may be material:

- (1) An agreement in Chinese dated 20 July 2000 between Newstar Australia Pty. Ltd. ("Newstar"), Xinao Langfang Investment Limited ("Langfang BVI") (then known as New Profound International Co. Ltd.), 新奧集團股份有限公司(Xinao Group Company Limited*, "XGCL") and 廊坊市天然氣有限公司(Langfang City Natural Gas Company Limited*, "Langfang City Gas") whereby Newstar agreed to transfer 30.37% of the equity interests in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited*, "Langfang Xinao") to Langfang BVI as supplemented by a supplemental agreement in Chinese between the same parties dated 31 January 2001 regarding the number of directors of Langfang Xinao to be appointed.
- (2) An agreement in Chinese dated 20 July 2000 between Langfang City Gas, Langfang BVI (then known as New Profound International Co. Ltd.), XGCL and Newstar whereby Langfang City Gas agreed to transfer 14.63% of the equity interests in Langfang Xinao to Langfang BVI in consideration for cash in the sum of US\$1,365,300 as supplemented by a supplemental agreement in Chinese between the same parties dated 31 January 2001 regarding the number of directors of Langfang Xinao to be appointed.
- (3) An agreement in Chinese dated 20 July 2000 between XGCL, Langfang BVI (then known as New Profound International Co. Ltd.), Langfang City Gas and Newstar whereby XGCL agreed to transfer 50% of the equity interests in Langfang Xinao to Langfang BVI in consideration for cash in the sum of US\$4,667,000.

- (4) An agreement in Chinese dated 24 July 2000 between XGCL, Xinao Liaocheng Investment Limited (“Liaocheng BVI”) (then known as New Profound Development Co. Ltd.) and 聊城市熱力公司 (Liaocheng City Heating Company*) whereby XGCL agreed to transfer 90% of the equity interests in 聊城新奧燃氣有限公司 (Liaocheng Xinao Gas Company Limited*, “Liaocheng Xinao”) to Liaocheng BVI in consideration for cash in the sum of US\$1,740,000 (equivalent to approximately RMB14,400,000).
- (5) An agreement in Chinese dated 25 July 2000 between XGCL, Xinao Huludao Investment Limited (“Huludao BVI”) (then known as New Profound Investment Co. Ltd.), and 葫蘆島市城市建設投資有限公司 (Huludao City Urban Construction Investment Company Limited*) whereby XGCL agreed to transfer 90% of the equity interests in 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited*, “Huludao Xinao”) to Huludao BVI in consideration for cash in the sum of US\$1,087,000 (equivalent to approximately RMB9,000,000).
- (6) An agreement in Chinese dated 27 July 2000 between XGCL, Xinao Miyun Investment Limited (“Miyun BVI”) (then known as New Profound Capital Construction Development Co. Ltd.) and 北京市密雲化工公司 (Beijing City Miyun Chemicals Company*, “Miyun Chemicals”) whereby XGCL agreed to transfer 80% of the equity interests in 北京新奧燃氣有限公司 (Beijing Xinao Gas Company Limited*, “Beijing Xinao”) to Miyun BVI in consideration for cash in the sum of US\$956,500 (equivalent to approximately RMB7,920,000).
- (7) An agreement dated 1 August 2000 between Ms. Zhao, Langfang BVI (then known as New Profound International Co. Ltd.) and Newstar regarding the allotment and issue of 320 shares of US\$1.00 each in Langfang BVI to Ms. Zhao as consideration for the sale and purchase of the shares in Langfang Xinao as mentioned in the material contract (1) above.
- (8) An agreement dated 1 August 2000 between Ms. Zhao and Xinao Gas Investment Group Limited (“Xinao Gas Investment”) (then known as New Profound Rich Investment Co. Ltd.) regarding the sale and purchase of 320 shares of US\$1.00 each in Langfang BVI (then known as New Profound International Co. Ltd.) by Ms. Zhao to Xinao Gas Investment in consideration for the allotment and issue of 238 shares of US\$1.00 each in Xinao Gas Investment to Ms. Zhao.
- (9) An agreement in Chinese dated 30 September 2000 between XGCL and Langfang Xinao whereby XGCL agreed to transfer a building erected at a site situated at the junction of Huaxiang Road and Hongrun Road, Langfang Economic and Technical Development Zone (“Langfang Development Zone”) to Langfang Xinao in consideration of the sum of RMB47,900,000.
- (10) An agreement in Chinese dated 30 September 2000 between 廊坊新城房地產開發有限公司 (Langfang Xincheng Property Development Company Limited*, “Xincheng Property”) and Langfang Xinao whereby Xincheng Property agreed to transfer a piece of land at a site situated in Jinguang Road, Langfang Development Zone together with a building thereon to Langfang Xinao in consideration of the sum of RMB7,600,000.

- (11) An agreement in Chinese dated 30 September 2000 between Langfang City Gas and Langfang Xinao whereby Langfang City Gas agreed to transfer various gas equipment and facilities in relation to the processing station located at the northern outskirts of the Langfang city centre to Langfang Xinao in consideration of the sum of RMB1,336,000.
- (12) An agreement in Chinese dated 30 September 2000 between Langfang City Gas and Langfang Xinao whereby Langfang City Gas agreed to transfer various gas equipment and facilities in relation to the processing station located at the southern outskirts of the Langfang city centre to Langfang Xinao in consideration of the sum of RMB576,000.
- (13) An agreement in Chinese dated 30 September 2000 between Langfang City Gas and Langfang Xinao whereby Langfang City Gas agreed to transfer various gas equipment and facilities in relation to the processing station located at the Langfang Development Zone to Langfang Xinao in consideration of the sum of RMB1,019,000.
- (14) An agreement in Chinese dated 30 September 2000 between Langfang City Gas and Langfang Xinao whereby Langfang City Gas agreed to transfer various gas equipment and facilities in relation to the Yongqing to Langfang's long distance pipeline to Langfang Xinao in consideration of the sum of RMB24,500,000.
- (15) An indemnity and undertaking in Chinese dated 20 December 2000 given by Langfang City Gas in favour of Langfang Xinao in relation to the various gas supply agreements entered into by Langfang City Gas on behalf of Langfang Xinao.
- (16) An agreement in Chinese dated 1 January 2001 between Langfang Xinao and XGCL whereby Langfang Xinao agreed to rent the 1st floor of the building in Langfang Development Zone as mentioned in material contract (9) above in consideration of the annual rental of RMB1,039,185 and an annual management fee of RMB263,920 for a term of two years commencing from 1 January 2001.
- (17) An agreement in Chinese dated 1 January 2001 between 廊坊新奧物業管理有限公司 (Langfang Xinao Property Management Company Limited*) and Langfang Xinao whereby Langfang Xinao Property Management Company Limited agreed to provide property management services in relation to the building in Langfang Development Zone as mentioned in material contract (9) above to Langfang Xinao at the consideration of the sum of RMB848,400 per annum for a term of three years commencing from 1 January 2001.
- (18) An agreement in Chinese dated 1 January 2001 between XGCL and Xinao Gas Investment whereby XGCL agreed to grant a license to use two of its trademarks to the Group at no costs.
- (19) A conditional acquisition agreement in Chinese dated 31 January 2001 between, among others, XGCL as vendor and Xinao Pinggu Investment Limited as purchaser in relation to the acquisition of 70% equity interest in 北京新奧京谷燃氣有限公司 (Beijing Xinao Jinggu Gas Company Limited*, "Jinggu Xinao") in consideration of RMB6,930,000.

- (20) A conditional acquisition agreement in Chinese dated 31 January 2001 between, among others, XGCL as vendor and Xinao Huangdao Investment Limited as purchaser in relation to the acquisition of 90% equity interest in 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited*, “Qingdao Xinao”) in consideration of RMB18,000,000.
- (21) A conditional acquisition agreement in Chinese dated 31 January 2001 between, among others, XGCL as vendor and Xinao Changping Investment Limited as purchaser in relation to the acquisition of 80% equity interest in 北京新奧京昌燃氣有限公司 (Beijing Xinao Jingchang Gas Company Limited*, “Jingchang Xinao”) in consideration of RMB7,920,000.
- (22) A deed of assignment dated 28 February 2001 between XGCL as assignor, Easywin as assignee and Xinao Gas Investment in relation to the assignment of a loan amounted to approximately RMB4,775,518.
- (23) An agreement in Chinese dated 28 February 2001 between Liaocheng Xinao, Langfang Xinao, 廊坊開發區市政建設工程有限公司 (Langfang Development Zone Urban Construction Engineering Company Limited*, “Langfang Urban Construction Company”), XGCL and 廊坊新奧建築安裝工程 (Langfang Xinao Construction and Decoration Engineering Company Limited*) whereby Liaocheng Xinao authorised Langfang Xinao (a) to receive on its behalf loans in the sum of RMB8,500,000 owed by Langfang Urban Construction Company to Liaocheng Xinao; (b) to receive on its behalf loans in the sum of RMB2,000,000 owed by Langfang Xinao Construction and Decoration Engineering Company Limited to Liaocheng Xinao; and (c) to pay on its behalf to XGCL loans in the amount of approximately RMB5,096,814 owed by Liaocheng Xinao to XGCL; and Langfang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB5,403,186 to Liaocheng Xinao.
- (24) An agreement in Chinese dated 28 February 2001 between Beijing Xinao, Langfang Xinao, Langfang Urban Construction Company, XGCL, Xincheng Property and Langfang City Gas whereby Beijing Xinao authorised Langfang Xinao (a) to receive on its behalf loans in the sum of RMB5,900,000 owed by Langfang Urban Construction Company to Beijing Xinao; (b) to pay on its behalf to Xincheng Property loans in the sum of RMB245,500 owed by Beijing Xinao to Xincheng Property; (c) to pay on its behalf to XGCL loans in the sum of approximately RMB5,332,967 owed by Beijing Xinao to XGCL; and (d) to pay on its behalf to Langfang City Gas loans in the sum of RMB1,176,000 owed by Beijing Xinao to Langfang City Gas; and Beijing Xinao shall thereafter return the net proceeds received in the sum of approximately RMB854,467 to Langfang Xinao.
- (25) An agreement in Chinese dated 28 February 2001 between Huludao Xinao, Langfang Xinao, Langfang Urban Construction Company, and XGCL whereby Huludao Xinao authorised Langfang Xinao (a) to receive on its behalf loans in the sum of RMB6,000,000 owed by Langfang Urban Construction Company to Huludao Xinao; and (b) to pay on its behalf to XGCL loans in the sum of approximately RMB5,238,402 owed by Huludao Xinao to XGCL; and Langfang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB761,598 to Huludao Xinao.

- (26) An agreement in Chinese dated 28 February 2001 between Qingdao Xinao, Langfang Xinao, Langfang Urban Construction Company, XGCL and Langfang City Gas whereby Qingdao Xinao authorised Langfang Xinao (a) to receive on its behalf loans in the sum of RMB12,000,000 owed by Langfang Urban Construction Company to Qingdao Xinao; (b) to pay on its behalf to XGCL loans in the sum of approximately RMB916,536 owed by Qingdao Xinao to XGCL; and (c) to pay on its behalf to Langfang City Gas loans in the sum of RMB219,000 owed by Qingdao Xinao to Langfang City Gas; and Langfang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB10,864,464 to Qingdao Xinao.
- (27) An agreement in Chinese dated 28 February 2001 between Jingchang Xinao, Langfang Xinao and XGCL whereby Jingchang Xinao authorised Langfang Xinao to pay on its behalf to XGCL loans in the sum of approximately RMB10,130,215 owed by Jingchang Xinao to XGCL; and Jingchang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB10,130,215 to Langfang Xinao.
- (28) An agreement in Chinese dated 1 March 2001 between Jinggu Xinao, Langfang Xinao and XGCL whereby Jinggu Xinao authorised Langfang Xinao to receive on its behalf loans in the sum of approximately RMB1,447,365 owed by XGCL to Jinggu Xinao; and Langfang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB1,447,365 to Jinggu Xinao.
- (29) An agreement in Chinese date 7 March 2001 between Langfang City Gas and Langfang Xinao whereby Langfang City Gas agreed to transfer a patent right to Langfang Xinao at no costs.
- (30) A deed for sale and purchase of shares in Xinao Gas Investment dated 28 March 2001 between, among others, Easywin as vendor and the Company as purchaser in relation to the sale and purchase of the entire equity interest of Xinao Gas Investment.
- (31) A deed of non-competition undertaking dated 28 March 2001 made by Easywin, Mr. Wang, Ms. Zhao and XGCL in favour of the Company whereby each of Easywin, Mr. Wang, Ms. Zhao and XGCL irrevocably undertook and covenanted with the Company that it/he/she will not, and will procure that its/his/her associates will not, directly or indirectly, during the period from the date on which this deed shall take effect up to the date on which this deed is terminated in accordance with the terms and conditions therein, carry on for its/his/her own account or for any other person, firm or organisation any business which is or may be in competition with the piped gas business of the Group or any business relating to gas supply in the PRC.
- (32) A placing and underwriting agreement dated 3 April 2001 between the Company, Easywin, Mr. Wang, Ms. Zhao, executive Directors, Rothschild and the underwriters named therein in relation to the placing of 180,000,000 Shares (subject to adjustment).
- (33) A deed of indemnity dated 3 April 2001 between Easywin, Mr. Wang, Ms. Zhao and the Company for itself and as trustee for its subsidiaries, containing certain indemnities given by Easywin, Mr. Wang and Ms. Zhao in favour of the Group.

- (34) A deed of non-competition undertaking dated 24 April 2001 made by Easywin, Mr. Wang, Ms. Zhao and XGCL in favour of the Company whereby each of Easywin, Mr. Wang, Ms. Zhao and XGCL irrevocably undertook and covenanted with the Company that it/he/she will not, and will procure that its/his/her associates will not, directly or indirectly, during the period from the date on which this deed shall take effect up to the date on which this deed is terminated in accordance with the terms and conditions therein, carry on for its/his/her own account or for any other person, firm or organisation any business which is or may be in competition with the piped gas business of the Group or any business relating to gas supply in the PRC.
- (35) A placing and underwriting agreement dated 26 April 2001 between the Company, Easywin, Mr. Wang, Ms. Zhao, executive Directors, Rothschild and the underwriters named therein in relation to the placing of 180,000,000 Shares (subject to adjustment).
- (36) An agreement in Chinese dated 23 May 2001 between Miyun BVI and Miyun Chemicals whereby Miyun Chemicals agreed to transfer 5% of the equity interests in Beijing Xinao to Miyun BVI in consideration for cash in the sum of RMB400,000.
- (37) An agreement in Chinese dated 23 October 2001 between Miyun BVI and Miyun Chemicals whereby Miyun Chemicals agreed to transfer 10% of the equity interests in Beijing Xinao to Miyun BVI in consideration for cash in the sum of RMB990,000.
- (38) An agreement in Chinese dated 21 December 2001 between Langfang BVI and Langfang City Gas whereby Langfang City Gas agreed to transfer 5% of the equity interests in Langfang Xinao to Langfang BVI in consideration for cash in the sum of RMB10,000,000.
- (39) The Placing Agreement.
- (40) The Subscription Agreement.
- (41) An agreement in Chinese dated 14 March 2002 between Xinao Jiangsu Investment Limited (“Jiangsu BVI”), 上海岩鑫實業投資有限公司 (Shanghai Yanxin Enterprise Investment Company Limited*, “Shanghai Yanxin”) and 鹽城市管道燃氣有限公司 (Yancheng City Piped Gas Company Limited* “Yancheng Company”) whereby Shanghai Yanxin agreed to transfer its 63.5% equity interest in 江蘇斯岩城市管道燃氣開發有限公司 (Jiangsu Siyan City Urban Piped Gas Development Company Limited*, “Siyan Company”) to Jiangsu BVI for a consideration of RMB6,350,000 and Yancheng Company agreed to transfer its 16.5% entire equity interest in Siyan Company to Jiangsu BVI for a consideration of RMB1,650,000 (the “Yancheng Agreement”).
- (42) A supplemental agreement in Chinese dated 14 March 2002 between Jiangsu BVI, Shanghai Yanxin and Yancheng Company supplementing the Yancheng Agreement whereby it was agreed, among other matters, that (a) all the rights and liabilities of Siyan Company would be transferred to a Sino-foreign joint

venture company to be called Yancheng Xiniao which was to be formed by Jiangsu BVI and Shanghai Yanxin; (b) the consideration in the sum of RMB6,350,000 payable by Jiangsu BVI to Shanghai Yanxin under the Yancheng Agreement was to be paid by two installments, the first instalment in the sum of RMB5,450,000 within 15 days upon the issue of the certificate of approval by the relevant PRC authority and the remainder within 18 months after the payment date of the first installments; and (c) the consideration in the sum of RMB1,650,000 payable by Jiangsu BVI to Yancheng Company under the Yancheng Agreement was to be paid directly to Yancheng Xiniao in partial settlement of the debts so owed by Yancheng Company to Siyan Company.

4. SERVICE

Save as disclosed below, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

Each of Mr. Wang, Mr. Yang Yu, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Jin Yongsheng and Mr. Yu Jianchao, being executive Directors, has entered into a service agreement with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:

- (a) each service contract is of an initial term of three years commencing on 1 March 2001 and expiring on 29 February 2004 and shall continue thereafter until terminated by either party giving to the other not less than six months' prior written notice;
- (b) the annual salary for each of Mr. Wang, Mr. Yang Yu, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Jin Yongsheng and Mr. Yu Jianchao from 1 March 2002 to 28 February 2003 shall be HK\$1,300,000, HK\$800,000, HK\$400,000, HK\$400,000, HK\$500,000 and HK\$400,000 respectively during the initial year. As from 1 March 2003, the annual salary of each executive Directors shall be as determined by the board of Directors, the increment of the annual salary shall not be more than 15% of the annual salary received by the executive Director for the immediate preceding year;
- (c) each of the executive Directors is entitled to a management bonus by reference to the audited consolidated net profits of the Group after taxation and minority interests but before extraordinary items (the "Net Profits") as the board of Directors may approve provided that the aggregate amount of the management bonuses payable to all executive Directors in respect of any financial year of the Group shall not exceed 10% of the Net Profits for the relevant financial year;
- (d) Mr. Wang and Mr. Yang Yu are also the directors of XGCL, and under the terms of their respective service agreement with the Company, each of them shall devote at least 70% of his working time and attention, and all of his skill to the discharge of duties of his office as an executive Director and, where relevant, as a director of such other members of the Group in which he holds the office of a director; and
- (e) each of the executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of the board of Directors regarding the amount of annual salary and management bonus payable to himself.

5. SPONSOR'S INTEREST

As confirmed by the Company's sponsor, Rothschild, as at the Latest Practicable Date, neither the Sponsor nor its directors, employees or associates (as referred in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

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

6. LITIGATION

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claims of material importance is known to the Directors to be pending or threatened against any member of the Group.

7. GENERAL

- (a) The secretary of the Company and qualified accountant is Mr. Cheng Chak Ngok AHKSA, ACCA, ACS, ACIS.
- (b) The compliance officer of the Company is Mr. Yang Yu.
- (c) The Company's branch share registrar and transfer office in Hong Kong is Central Registration Hong Kong Limited, Rooms 1901-1905, 19th Floor, Hopewell Centre, 185 Queen's Road East, Wanchai, Hong Kong.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company principal office in Hong Kong at Room 4202, Far East Finance Centre, Harcourt Road, Admiralty Hong Kong during normal business hours up to and including the date which is 14 days from the date of this circular:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the Companies Law of the Cayman Islands;
- (c) the annual report of the Company for the financial year ended 31 December 2001;
- (d) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix, together with the service contracts with the executive Directors referred to in the paragraph headed "Service" in this Appendix; and
- (e) the circular of the Company dated 28 March 2002 in relation to the proposals for general mandates to repurchase its own Shares and to issue Shares.