

Living with **XinAo Gas**

Natural gas is closely linked with us in every aspect of our life - home, leisure, transport and production. As a city piped natural gas operator, XinAo Gas works for providing a better living environment to everyone.

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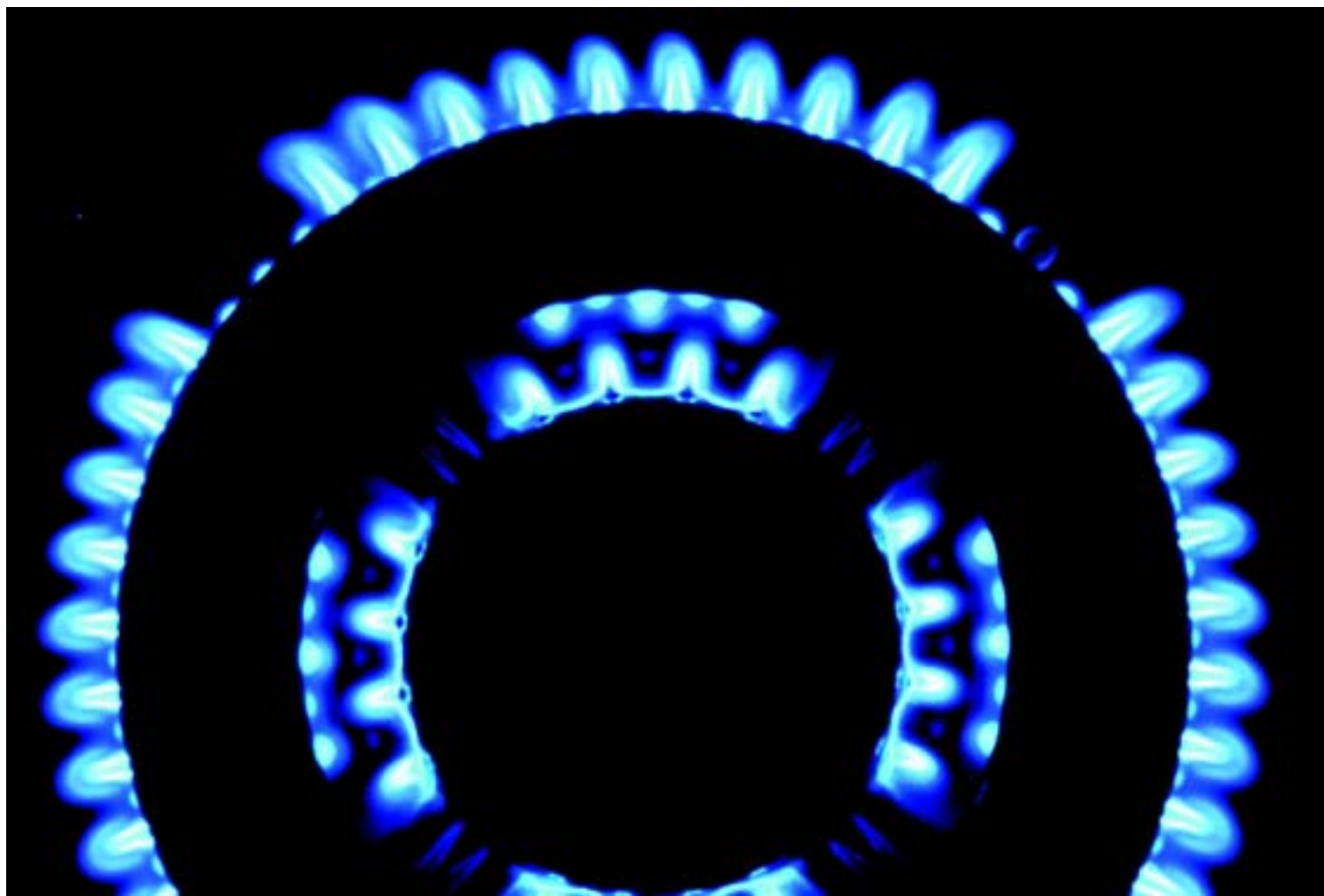
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OUR MISSION OF BECOMING THE LEADING PIPED NATURAL GAS OPERATOR IN THE PRC





NATURAL GAS

**IS A CLEAN, SAFE, EFFICIENT AND ECONOMICAL ENERGY SOURCE.
THE USE OF NATURAL GAS REDUCES THE SERIOUS POLLUTION
CAUSED BY A COAL-FIRED ECONOMY.**



BOARD OF DIRECTORS

Executive Directors

Wang Yusuo (*Chairman*)
Yang Yu (*Chief Executive Officer*)
Chen Jiacheng
Zhao Jinfeng
Qiao Limin
Jin Yongsheng
Yu Jianchao
Cheung Yip Sang
Cheng Chak Ngok

Non-executive Directors

Zhao Baoju

Independent non-executive Directors

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Cheng Chak Ngok, *FCCA, CPA, ACIS, ACS*

AUTHORISED REPRESENTATIVES

Yang Yu
Cheng Chak Ngok

MEMBERS OF THE AUDIT COMMITTEE

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

MEMBERS OF THE REMUNERATION COMMITTEE

Yang Yu
Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

**HONG KONG BRANCH SHARE REGISTRAR AND
TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited
Rooms 1712-16, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK EXCHANGE LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

2688

AUDITORS

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

LEGAL ADVISER

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

PRINCIPAL BANKERS

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

WEBSITE

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E-MAIL ADDRESS

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EMPOWERING PRODUCTION

Natural gas is used in industrial process in steel, glass, pottery and dyeing industries, etc. Using natural gas as the power for production can enhance industrial efficiency and product quality.



The Group sold

143 million m³

of natural gas to commercial and industrial users in 2004



CLOTHING - Using natural gas to dry clothes is more economical and convenient.



FOOD - Apart from being used for cooking, natural gas can also be used as an industrial fuel for food processing.



In 2004, the total installed daily capacity of commercial and industrial users reached

1.21 million m³



DELIVERING DELIGHT

The Group has connected 2,023 commercial and industrial users, among which are restaurants that use natural gas for cooking and deliver delight and delicacies for our enjoyment.



WANG Yusuo

Chairman

BRAND RE

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

RESULTS OF THE YEAR

Building on its previous encouraging results, the Group continued to record substantial growth this year. The turnover and profit for the year reached RMB1,439,945,000 and RMB252,257,000 respectively, representing increases of 64.0% and 37.8% over last year respectively. Earnings per share increased by 19.8% to RMB29.7 cents.

The Group secured 11 new projects this year, including Yantai, a million city, and thus accomplished more than this year's target of securing six to eight new projects. Of the new projects secured this year, two are located in Guangdong Province, two in Guangxi Autonomous Region, two in Zhejiang Province, and one each in Hebei Province, Henan Province, Inner Mongolia Autonomous Region, Shaanxi Province and Shandong Province. Our total connectable population coverage rose by 55.7% to approximately 29,128,000. By obtaining projects of medium to large size, the Group has taken advantage of economies of scale and maximized shareholders' return by making good investment of shareholders' capital. It also has demonstrated once again the

Group's high competence in investment, operation and management as well as its competitive advantages in the industry.

The outstanding performance, safety track record and quality service of the project companies has increased Xinao Gas' brand recognition and influence in the regions. With higher esteem and stronger influence in the industry, the Group has become one of the professional gas operators with the largest scale and highest competitiveness.

As at the end of 2004, the Group made natural gas connections for a total of 634,678 residential households and 1,515 commercial/industrial ("C/I") customers (connected to gas appliances of a total installed designed daily capacity of 1,058,114 cubic meters), representing increases of 253,395 residential households and 733 C/I customers (with an increase of a total installed designed daily capacity of 525,321 cubic meters) when compared to 2003. Taken into account of those acquired or converted customers, the Group had a total of 461,899 residential households and 2,023 C/I customers (connected to a total

installed daily capacity of 1,214,314 cubic meters). The sales volume of natural gas for the year also grew tremendously by 70.1%. These all demonstrate the benefits of economies of scale and the Group's prosperous business development.

FINANCIAL POSITION

As at the end of 2004, the Group's cash on hand was RMB911,537,000, and bank and other borrowings were RMB1,917,160,000.

In the first half of the year, the Group successfully brought in International Finance Corporation ("IFC"), the private sector arm of the World Bank Group, as our long term shareholder. IFC also agreed to provide five-year loans for a total of US\$25,000,000 (equivalent to RMB206,700,000) to the project companies of the Group, and the loans were drawn in the second half of the year as part of their working capital. The fact of IFC becoming the Group's shareholder and lender does not just illustrate the Group's distinctive status, ability and positive prospects, but also shows IFC's recognition of the Group's importance and contribution in the environmental industry.

COGNITION



During the year, the Company raised funds with net proceeds more than HK\$990,000,000 (equivalent to RMB1,049,400,000) by a share placement and a convertible bond issue in February and November respectively. The market response for the Company's financing activities was very positive, showing the confidence of professional investors and shareholders in the Group's business and prospects. Apart from providing the capital the Group required, these financing activities have also enlarged the Group's shareholder base and capital base and hence enhanced the Group's strength.

INTERNATIONAL AWARDS

Because of the excellent management, the Company continued to receive many awards from various prominent international financial magazines during the year: "Overall Best Managed Company in China (Medium Cap)" by *AsiaMoney* for the first time, and five other individual awards, namely, "Clearest Corporate Strategy", "Best Financial Management", "Best Investor Relations", "Best Annual Reports" and "Most Improved Website"; "Chinese Business 500" for four consecutive years and "Top 20 Chinese Enterprises of Highest Total Asset Growth" for two consecutive years by *Yazhou Zhoukan*.

The above awards, voted by international institutional investors and analysts, have proved that Xinao Gas is highly regarded by investors for our leading position in the industry with outstanding and perceptive management team, healthy financial positions and efficient operation model. It was not easy to obtain such achievements, but the Group's management will endeavor to maintain our outstanding performance and continue to achieve even better results and reputation, so as to create maximized

value for our shareholders and the Company.

CORPORATE MANAGEMENT

Since its listing, Xinao Gas has secured gas projects across 13 provinces, municipalities and autonomous regions in the People's Republic of China (the "PRC"). With rapid of business growth, the management scope of the Group has also expanded quickly. Therefore, the Group has set up 12 regional management centers to enhance regional management: the Group appoints senior management staff who are familiar with corporate operation and culture as general managers of the regional centers, and professional directors of marketing, finance, technology, personnel and construction cost management, etc. are posted to each regional center. The Chief Executive Officer communicates with the regional general managers frequently to strengthen management of the Group as a whole and ensure that the Group's targets can be fulfilled.

CUSTOMER SERVICE

Quality customer service is the key for maintaining good and long term relations between the Company and customers. The Group upholds the principle of "361° service – more efforts, much more satisfaction" and makes every effort to provide safe, efficient and high quality service to our customers. Because of our quality service, the project companies of the Group continue to win recognition and credit from local customers as well as government authorities in the cities they operate: during the year, many of the project companies continued to be awarded "Unit with High Consumer Satisfaction" by local consumer councils, and five employees of Langfang Xinao Gas Company Limited ("Langfang Xinao")

received "National Female Courtesy Award" for their remarkable good service. Quality customer service, good safety track record and efficient operation management help the Group to build up good image and brand recognition. Our operating projects set good examples and become a crucial advantage for the Group to obtain new projects successfully when developing new markets.

In 2004, Dongguan Xinao Gas Company Limited ("Dongguan Xinao"), Kaifeng Xinao Gas Company Limited ("Kaifeng Xinao"), Lianyungang Xinao Gas Company Limited and Beijing Xinao Gas Company Limited launched the "95158" national 24-hour hotline, which means that 11 of our project companies have launched such service. Our customers can simply dial 95158 to access their local 24-hour customer service centers and communicate with us conveniently. In case of emergency, we uphold our promise to arrive at the site within 20 minutes to carry out repair work.

In 2004, Liaocheng Xinao Gas Company Limited and Beijing Xinao Jingchang Gas Company Limited finished setting up the information technology systems; Liaocheng Xinao Gas Company Limited and Bengbu Xinao Gas Company Limited completed the establishment of Geographic Information System; seven of the our project companies, namely, Langfang Xinao, Changsha Xinao Gas Company Limited, Kaifeng Xinao, Changzhou Xinao Gas Company Limited, Dongguan Xinao, Zhuzhou Xinao Gas Company Limited and Huaian Xinao Gas Company Limited cooperated with local banks for collecting gas usage charges. These technology establishments have reinforced the Group's high operation and service efficiency, strengthened the Group's ability in safe operation and

further lowered the Group's operating costs.

HUMAN RESOURCES

As at the end of 2004, the Group had 7,820 employees, representing an increase of 26.3% over last year. The growth in manpower was the result of increased number of project cities from 41 to 52. The Group's actual manpower productivity increased a lot when taking into account the fact that the connectable population of the Group increased by 55.7% during the year. It is expected that the number of employees will continue to grow with more projects being obtained in the coming year.

We always believe that our employees are our most valuable assets and the basis of the Group's competitiveness; the Group's continuous development and success are rooted at our human resources. Therefore, we uphold the principle of "based on people" and put great emphasis on recruitment and internal training. The Group offers learning and studying opportunities to employees as a kind of benefits and rewards, so as to raise our employees' competitiveness and enlarge our human resource reserve.

PROSPECTS

Natural gas is not just one of the cleanest, safest, most efficient and economical energy sources, but also has obvious advantages in environmental and social efficacy and is more competitive in price than other clean energy sources like liquefied petroleum gas ("LPG") and electricity. Therefore, the PRC central and local governments in general emphasize the use of natural gas and vigorously promote the use of natural gas throughout the country as a clean energy source.

According to the statistics of Energy Research Institute, National Development and Reform Commission ("NDRC"), in 2004, the output of natural gas in the PRC increased 18.5% to 40.8 billion cubic meters when compared to 2003. As forecasted by Energy Bureau, NDRC, the demand growth of natural gas will be well ahead of coal and oil in the PRC in the future 20 years. By 2010, natural gas consumption will make up 6% – 7% of the total energy consumption in the PRC and reach 93.8 billion cubic meters; by 2020, natural gas consumption will further increase to 10% of the total energy consumption and reach 203.7 billion cubic meters.

At the end of 2002, the Ministry of Construction of the PRC issued a memorandum on the "Opinion concerning the speeding up of the development of market economy in the public utilities sector" allowing local authorities to open up the market for the investment in construction and operation of public utilities, including city gas. Foreign investors are now allowed to participate in the market by various means, such as setting up wholly-owned enterprises, equity joint ventures or operation joint ventures. In February 2005, the State Council of the PRC also issued "Opinions on encouraging the development of non-state-owned economy", which also explicitly encourages private investors and foreign investors to enter urban public utilities sector. The implementation of these PRC government policies will facilitate and accelerate the healthy development of city piped natural gas market and further reduce the investment risks.

With the support of relevant policies from the government, the construction of various branch pipelines of the West-to-

East Project, the linking up of Zhong-Wu Pipelines, the exploration of natural gas under seabed and imported liquefied natural gas ("LNG") projects in coastal areas have progressed smoothly. These developments, together with quickened urbanization, higher standards for urban environmental protection and higher popularity of natural gas among consumers, facilitate the rapid and continuous development of downstream natural gas business.

At present, natural gas users only account for 10% of the total urban residential gas users in the PRC, and the ratio is expected to increase to 30% by 2010 and 40% by 2020, which reveal the positive market prospect of natural gas industry in the PRC. The Group believes that, after rapid development, the city piped gas market in the PRC is entering into the stage of merges and acquisitions, which will offer good opportunities to Xinao Gas and other large and renowned gas operators for further development and expansion.

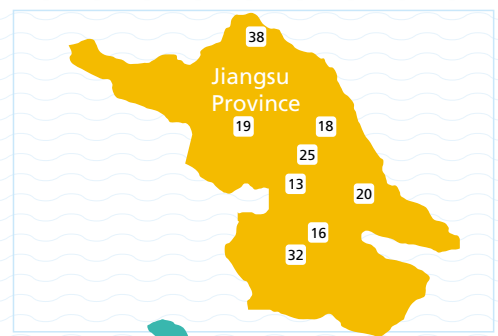
Under all the favorable conditions, we believe that the Group will have better development prospects, more chances for exploring new projects and higher ability to ensure reliable gas sources. It is expected that in 2005, the Group will, as always, be able to secure new quality projects in large and medium cities. Despite the huge market opportunities, we will remain prudent and conduct cautious feasibility study on each project before making any investment decision, so as to minimize investment risks and maximize shareholders' wealth.

Wang Yusuo
Chairman

20 April 2005

OPERATIONAL LOCATIONS





OPERATIONAL LOCATION

CONNECTABLE POPULATION

OPERATIONAL LOCATION

CONNECTABLE POPULATION

OPERATIONAL LOCATION

CONNECTABLE POPULATION

1	Langfang	443,000
2	Liaocheng	429,000
3	Miyun	98,000
4	Huludao	492,000
5	Xingcheng	126,000
6	Pinggu	117,000
7	Huangdao	300,000
8	Changping	97,000
9	Zhucheng	286,000
10	Chengyang	447,000
11	Yantai Development Zone#	—
12	Yantai	1,703,000
13	Gaoyou	136,000
14	Bengbu	795,000
15	Zouping	169,000
16	Taixing	215,000
17	Laiyang	250,000

18	Yancheng	383,000
19	Huaian	850,000
20	Haian	188,000
21	Chuzhou	215,000
22	Luan	310,000
23	Rizhao	300,000
24	Xinxiang	798,000
25	Xinghua	284,000
26	Bozhou	200,000
27	Haining	641,000
28	Quzhou	122,000
29	Shijiazhuang	2,173,000
30	Chaohu	321,000
31	Lanxi	116,000
32	Wujin	961,000
33	Jinhua	113,000
34	Wenzhou*	—

35	Longwan*	—
36	Xiangtan	692,000
37	Dongguan	3,731,000
38	Lianyungang	647,000
39	Changsha	2,058,000
40	Kaifeng	593,000
41	Jiaozhou	764,000
42	Zhuzhou	782,000
43	Jiaonan	248,000
44	Tongliao	320,000
45	Guilin	604,000
46	Huzhou	205,000
47	Zhanjiang	590,000
48	Luquan	356,000
49	Shangqiu	1,460,000
50	Shantou	1,200,000
51	Guigang	300,000
52	Xianyang	500,000

29,128,000

The population of Yantai Development Zone is included in Yantai

* Xiniao Gas' operational locations in Wenzhou and Longwan are in the development zones and do not have population data

PROJECT OPERATIONAL DATA

operational data as at 31 December 2004

	Operational location ⁽¹⁾	Year of the first establishment	Length of existing pipelines (km) ⁽²⁾	No. of existing processing stations	Combined designed daily capacity of existing processing stations (m ³)	Contracted number of gas supply to households ⁽³⁾	Contracted number of gas supply to commercial/ industrial customers (sites) ⁽³⁾
1	Langfang	1993	282	3	410,000	81,764	464
2	Liaocheng	2000	364	1	50,000	73,321	121
3	Miyun	2000	111	3	168,000	20,266	77
4	Huludao ⁽⁶⁾	2000	142	1	30,000	63,749	131
5	Xingcheng	2002	—	—	—	—	—
6	Pinggu	2001	88	1	72,000	18,807	56
7	Huangdao	2001	171	1	72,000	35,207	63
8	Changping	2001	105	1	102,000	31,277	56
9	Zhucheng	2001	98	1	38,000	12,133	16
10	Chengyang	2001	160	2	350,000	47,273	48
11	Yantai Development Zone	2001	10	1	30,000	—	2
12	Yantai	2004	—	—	—	—	—
13	Gaoyou	2001	25	1	4,000	5,909	32
14	Bengbu	2002	137	1	96,000	33,536	29
15	Zouping	2002	53	1	72,000	9,979	15
16	Taixing	2002	45	1	96,000	8,918	29
17	Laiyang	2002	84	1	72,000	16,091	15
18	Yancheng	2002	78	1	30,000	22,531	48
19	Huaian	2002	216	1	70,000	34,768	14
20	Haian	2002	96	1	4,000	5,143	11
21	Chuzhou	2002	236	3	417,000	22,029	27
22	Luan	2003	46	1	72,000	18,744	8
23	Rizhao	2002	96	1	300,000	13,682	27
24	Xinxiang	2002	442	1	500,000	50,212	77
25	Xinghua	2002	30	1	50,000	5,140	14
26	Bozhou	2003	47	1	46,000	10,588	18
27	Haining	2002	52	1	6,000	9,115	8
28	Quzhou	2002	47	1	180,000	10,786	5
29	Shijiazhuang	2002	116	1	602,000	31,164	17
30	Chaohu	2003	49	1	220,000	9,438	7
31	Lanxi	2003	16	—	—	1,608	1
32	Wujin	2003	206	1	430,000	14,074	91
33	Jinhua	2003	40	1	20,000	10,000	10
34	Wenzhou	2003	16	1	120,000	1,616	5
35	Longwan	2004	—	—	—	—	—
36	Xiangtan	2003	24	1	50,000	20,975	14
37	Dongguan	2003	61	1	98,000	13,420	20
38	Lianyungang	2003	66	2	63,000	18,805	26
39	Changsha	2003	397	2	960,000	59,292	74
40	Kaifeng	2003	185	1	100,000	15,296	89
41	Jiaocheng	2003	49	1	40,000	4,997	8
42	Zhuzhou	2003	220	2	93,000	15,156	35
43	Jiaonan	2003	45	—	—	2,520	—
44	Tongliao	2004	38	1	500,000	1,815	3
45	Guilin	2004	20	—	—	4,016	—
46	Huzhou	2004	46	1	620,000	8,602	4
47	Zhanjiang	2004	—	—	—	680	1
48	Luquan	2004	—	—	—	—	—
49	Shangqiu	2004	16	1	240,000	1,063	—
50	Shantou	2004	—	—	—	1,284	—
51	Guigang	2004	—	—	—	—	—
52	Xianyang	2004	—	—	—	—	—
Total			4,871	51	7,493,000	896,789	1,816

Notes:

- (1) Some operational locations are operated by two companies to separate the pipelines construction business and gas distribution business. The combined data of the companies in each operational location is shown in this table.
- (2) Existing pipelines consist of intermediate pipelines and main pipelines.
- (3) The difference between contracted number of gas supply and number of gas connections made represents the number of connections to be made.

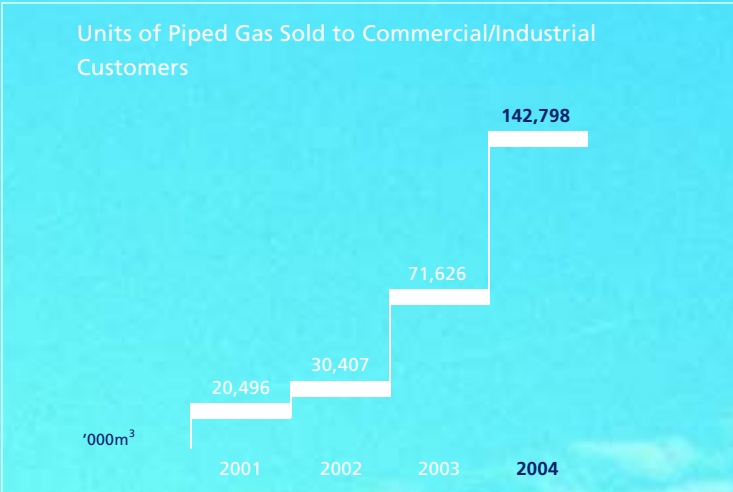
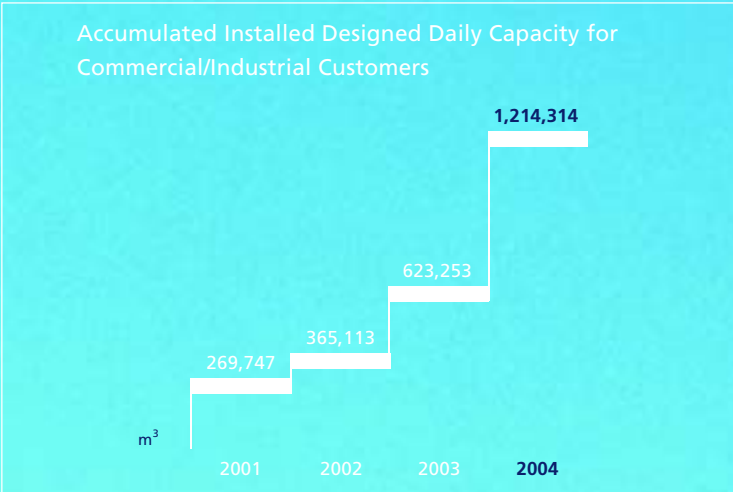
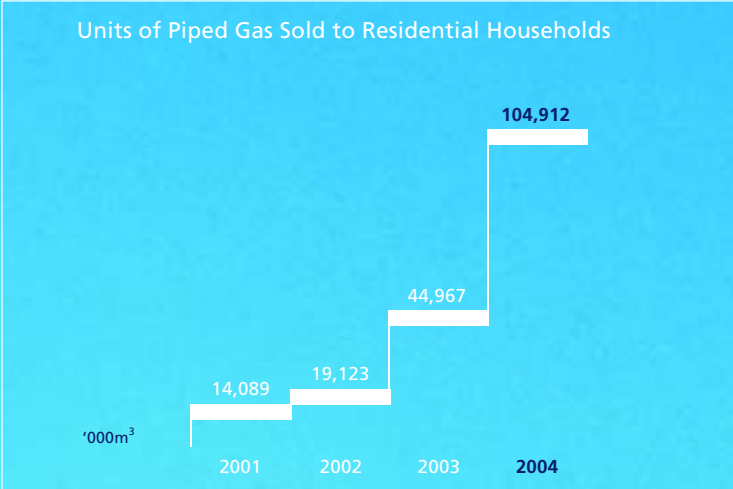
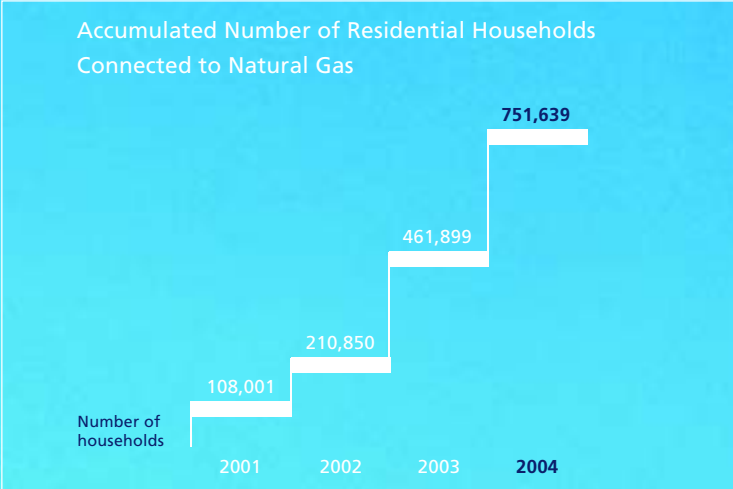
Number of gas connections made to households ⁽³⁾	Number of gas connections made to commercial/ industrial customers (site) ⁽³⁾	Number of acquired or converted households	Number of acquired or converted commercial/ industrial customers	Estimated daily gas consumption for households (m ³) ⁽⁴⁾	Installed designed daily capacity for commercial/ industrial customers (m ³) ⁽⁵⁾
80,005	372	—	—	32,002	229,265
40,144	107	—	—	16,058	48,530
16,394	65	—	—	6,558	85,157
51,679	128	—	—	20,672	61,421
—	—	—	—	—	—
11,502	49	—	—	4,601	18,294
30,506	56	—	—	12,202	76,793
21,084	52	—	—	8,434	12,536
8,937	12	—	—	3,575	3,202
23,262	45	—	—	9,305	30,235
—	2	—	—	—	12,000
—	—	—	—	—	—
3,680	32	—	—	1,472	3,705
29,806	22	—	—	11,922	71,933
5,293	15	—	—	2,117	3,940
7,173	29	—	—	2,869	6,677
10,955	13	—	—	4,382	3,463
13,538	44	—	—	5,415	23,311
24,980	14	—	—	9,992	4,119
3,507	10	—	—	1,403	2,451
16,664	26	—	—	6,666	50,470
12,067	8	—	—	4,827	1,542
12,202	23	—	—	4,881	6,033
42,415	69	34,817	78	30,893	54,511
2,362	12	—	—	945	4,297
2,279	8	—	—	912	4,026
5,560	8	—	—	2,224	2,263
10,783	5	—	—	4,313	1,928
21,373	16	894	1	8,907	127,843
4,764	7	—	—	1,906	2,375
456	1	—	—	182	32
13,618	69	—	—	5,447	23,447
9,043	10	—	—	3,617	1,038
1,616	—	—	—	646	—
—	—	—	—	—	—
7,986	11	—	—	3,194	2,617
10,015	20	—	—	4,006	21,072
8,602	14	2,116	8	4,287	14,576
39,428	48	—	—	15,771	95,165
13,118	67	78,334	419	36,581	89,246
3,419	8	—	—	1,368	6,485
9,306	17	—	—	3,722	4,967
2,520	—	—	—	1,008	—
145	—	—	—	58	—
1,665	—	—	—	666	—
26	1	—	—	10	3,250
455	—	—	—	182	—
—	—	—	—	—	—
343	—	800	2	457	100
3	—	—	—	1	—
—	—	—	—	—	—
634,678	1,515	116,961	508	300,656	1,214,314

(4) Estimated daily gas consumption for households is calculated based on estimated average daily gas consumption of 0.4m³ per connected and acquired residential household.

(5) It is estimated that connected and acquired commercial/industrial customers have a daily consumption about 50% of the installed designed daily capacity of the gas appliances (as set out in the respective supply contracts).

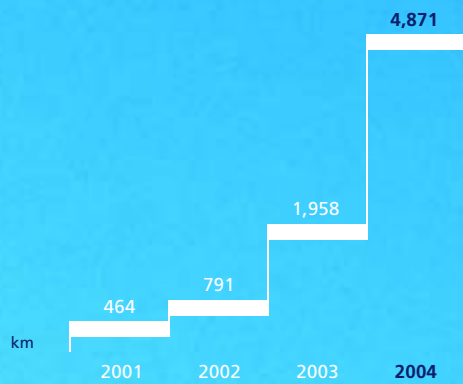
(6) The project in Xingcheng is operated by Huludao Xinao as a branch company. The operational data is included in Huludao.

OPERATIONAL



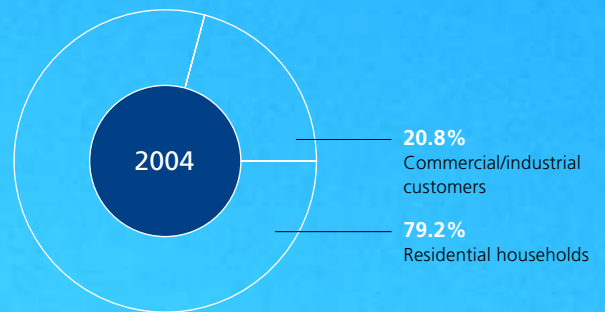
FINANCIAL

Length of Existing Intermediate Pipelines and Main Pipelines

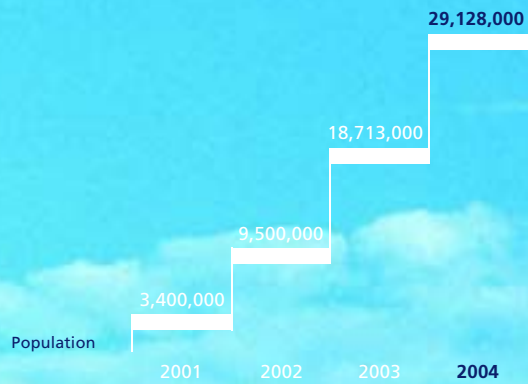


Turnover Breakdown by Customer

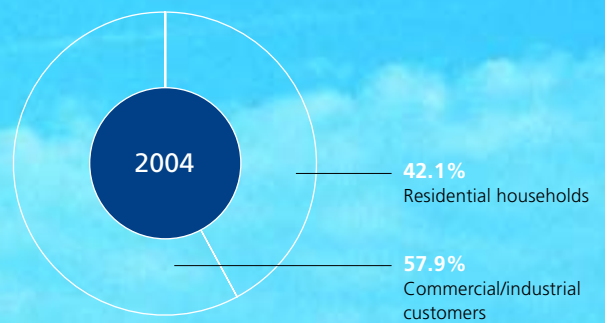
Connection Fees

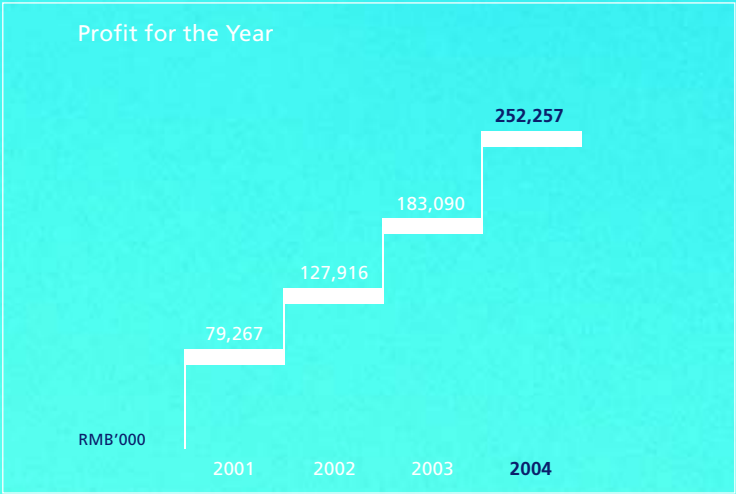
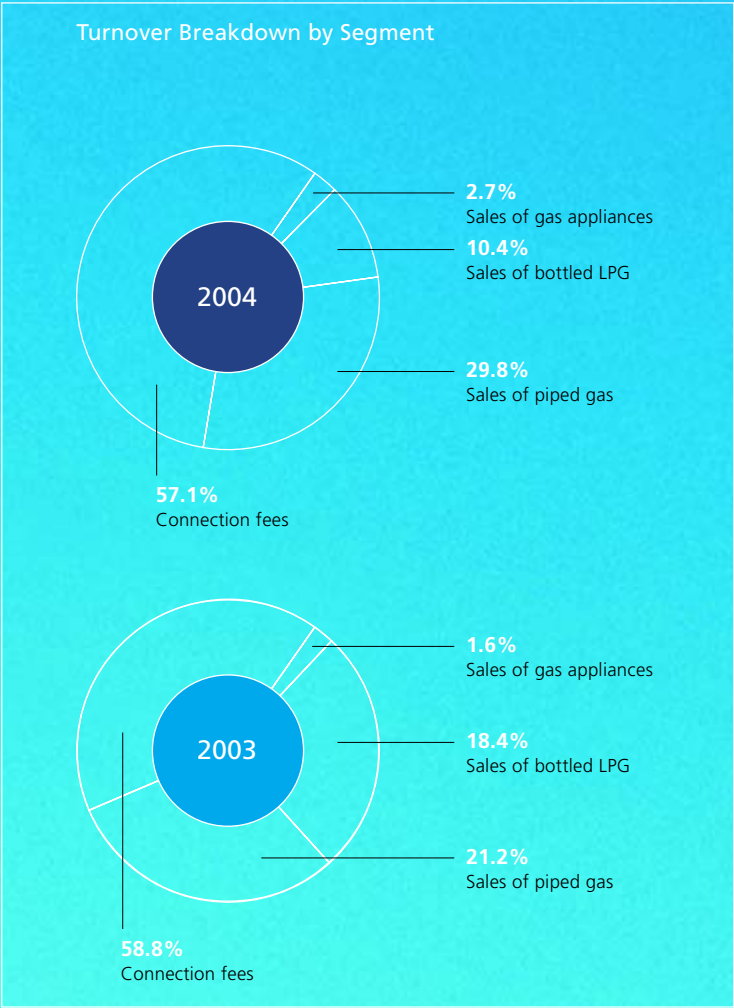
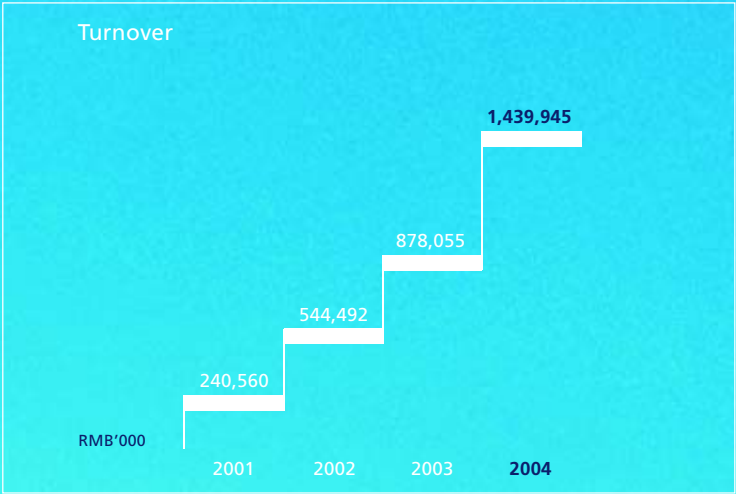


Coverage of Connectable Population



Sales of Piped Gas





COMPARISON OF SIX-YEAR RESULTS

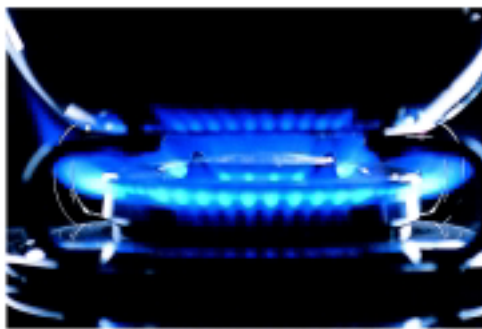
	2004	2003	2002	2001	2000	1999
Highlights (Group)						
Number of connected households	634,678	381,283	210,850	108,001	66,253	30,607
Installed designed daily capacity for commercial/industrial customers (m ³)	1,058,114	532,793	365,113	269,747	139,302	104,026
Units of piped gas sold						
Residential households (m ³)	104,912,000	44,967,000	19,123,000	14,089,000	5,645,000	2,893,000
Commercial/industrial customers (m ³)	142,798,000	71,626,000	30,407,000	20,496,000	11,259,000	8,890,000
Length of existing pipelines ⁽¹⁾ (km)	4,871	1,958	791	464	257	143
Number of gas processing stations	51	35	25	12	7	2
Combined designed daily capacity of existing processing stations (m ³)	7,493,000	4,709,000	3,178,000	837,800	561,800	100,000
Turnover & Profit (RMB'000)						
Turnover	1,439,945	878,055	544,492	240,560	122,270	52,923
Profit before taxation	314,718	199,242	156,058	99,598	50,370	25,572
Income tax expenses	(9,196)	(2,957)	(12,324)	(11,081)	(6,976)	(3,836)
Profit after taxation	305,522	196,285	143,734	88,517	43,394	21,736
Minority interests	(53,265)	(13,195)	(15,818)	(9,250)	(6,018)	(6,653)
Profit for the year	252,257	183,090	127,916	79,267	37,376	15,083
Dividends	25,254	–	–	–	30,529	–
Assets & Liabilities						
Non-current assets	3,033,381	2,104,824	925,307	415,824	260,999	96,920
Associate	61,025	10,394	–	–	–	–
Jointly controlled entities	170,499	22,105	2,500	–	–	–
Current assets	1,653,143	960,602	842,558	307,481	174,032	161,784
Current liabilities	(1,261,830)	(1,032,785)	(456,841)	(201,195)	(334,507)	(147,667)
Non-current liabilities	(1,297,924)	(587,594)	(276,030)	(51,945)	(20,915)	(15,000)
Net assets	2,358,294	1,477,546	1,037,494	470,165	79,609	96,037
Capital & Reserves						
Share capital	91,954	78,122	78,122	66,462	–	–
Reserves	1,820,384	1,059,977	861,355	386,199	69,830	57,393
Shareholders' funds	1,912,338	1,138,099	939,477	452,661	69,830	57,393
Minority interests	445,956	339,447	98,017	17,504	9,779	38,644
	2,358,294	1,477,546	1,037,494	470,165	79,609	96,037
Earnings per share	29.7 cents	24.8 cents	18.0 cents	14.3 cents	8.9 cents	3.6 cents

(1) Length of existing pipelines consists of intermediate pipelines and main pipelines.

COLOURING OUR LIFE

Natural gas is used in urban households for cooking, showering and heating. Stable and reliable natural gas supply ensures a good and comfortable living environment.





As at the end of 2004,
the Group has a

7.7%

penetration rate of piped natural gas.



HOME - With higher living standards, natural gas has become a common and popular clean energy source for modern urban households

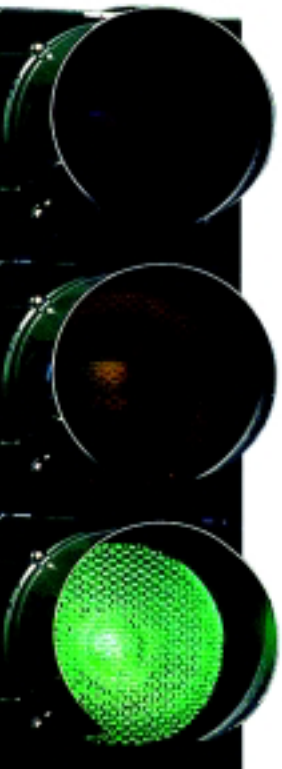
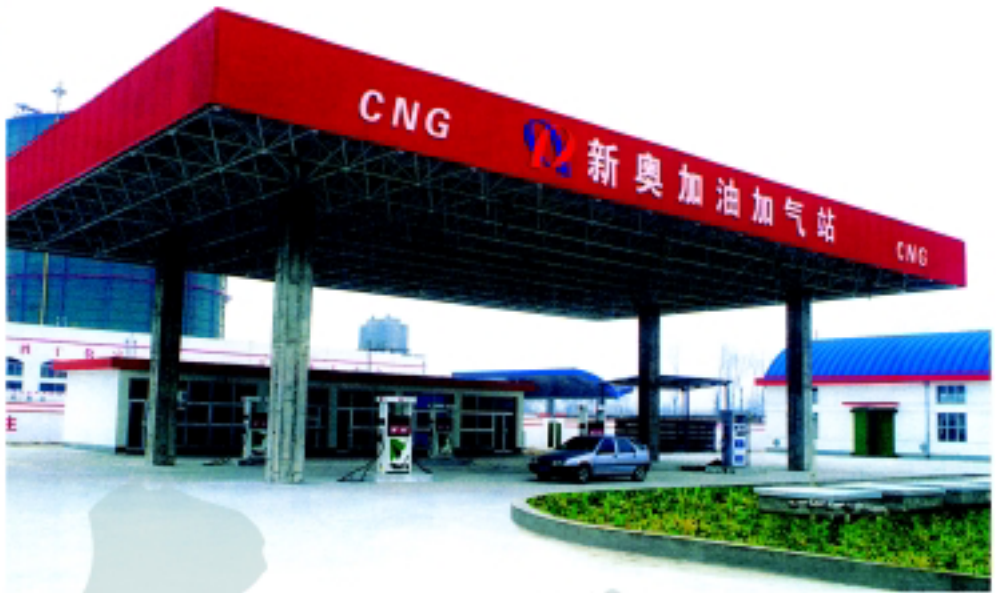




Xinao Gas has converted

2,089

buses and taxis to using natural gas.



TRANSPORTATION – As a vehicle fuel, natural gas is on average 30 – 50% cheaper than gasoline and diesel. Using natural gas can reduce environmental problem caused by vehicle exhaust.

MOVING AHEAD

We are devoted to developing CNG vehicle refuelling station business and plan to build 50 to 100 CNG stations in our existing projects in 2005.



INTERNATIONAL AWARDS

XINAO GAS'S BRAND RECOGNITION IS ENHANCED BY ITS OUTSTANDING PERFORMANCE, SAFETY RECORD AND QUALITY SERVICES.

INDUSTRY REVIEW

Energy Consumption Pattern in PRC

With the continuing strong economic growth in recent years, the demand from the People's Republic of China (the "PRC") for energy also increases tremendously. In 2004, the PRC imported a record of over 100 million tons of crude oil. The PRC is the second largest energy consumer in the world, and its major sources of energy are coal, crude oil and natural gas. The use of coal severely pollutes the environment, whereas natural gas is not just one of the cleanest, safest, most efficient and economical energy sources, but also has obvious advantages in environmental and social efficacy and is more competitive in price than other clean energy sources such as liquefied petroleum gas ("LPG") and electricity. Therefore, the PRC government is vigorously promoting the use of natural gas as a clean energy source. According to the statistics of Energy Research Institute, National Development and Reform Commission ("NDRC"), in 2004, the output of natural gas in the PRC increased by 18.5% to 40.8 billion cubic meters when compared to 2003.

As forecasted by the Energy Bureau, NDRC, the demand growth of natural gas will be well ahead of coal and oil in the PRC in the next 20 years. By 2010, natural gas consumption will make up 6% – 7% of the total energy consumption in the PRC and reach 93.8 billion cubic meters; by 2020, natural gas consumption will further increase to 10% of the total energy consumption and reach 203.7 billion cubic meters.

The highest growth in demand for natural gas comes from electricity generation and residential use, which also make up the largest proportion of natural gas demand. It is estimated that before 2020, the annual growth rates of natural gas demand for electricity generation, residential use, industrial use and chemical industry use will reach 17%, 14.7%, 8% and 6% respectively. With more rapid urbanization and higher standards for urban environmental protection in the PRC, the gas penetration rates in the PRC cities are also rising rapidly. At present, natural gas users only account for 10% of the total urban residential gas users in the PRC, and the ratio is expected to increase to 30% by 2010 and 40% by 2020. These

statistics fully support the positive market prospects of natural gas industry in the PRC.

PRC Policies on City Piped Natural Gas Market

At the end of 2002, the Ministry of Construction of the PRC issued a memorandum on the "Opinion concerning the speeding up of the development of market economy in the public utilities sector" allowing local authorities to open up the market for the investment in construction and operation of public utilities, including city gas. Foreign investors are now allowed to participate in the market by various means, such as setting up wholly-owned enterprises, equity joint ventures or operation joint ventures. In February 2005, the State Council of the PRC also issued "Opinions on encouraging the development of non-state-owned economy", which also explicitly encourages private investors and foreign investors to enter urban public utilities sector.

2004 Overall Best Managed Company in China (Medium Cap)

by Asiamoney



The implementation of these PRC government policies will facilitate and accelerate the healthy development of city piped natural gas and further reduce the investment risks for gas operators. The market liberalization of city gas industry in the PRC has been speeded up with the support of relevant policies from the government. A number of city gas projects in the PRC have carried out corporate reform or invited outside investment.

The construction of various branch pipelines of the West-to-East Project, the linking up of Zhong-Wu Pipelines, the exploration of natural gas under seabed and imported liquefied natural gas ("LNG") projects in coastal areas have progressed smoothly. These developments, together with central and local governments' emphasis on using natural gas and higher popularity of natural gas among consumers, facilitate the rapid and continuous development of downstream natural gas business. As a result, the Group will have even greater business development prospects and higher ability to ensure reliable gas sources.

BUSINESS REVIEW

The principal businesses of the Group are the construction of gas pipelines, the sale of piped gas, the sale of bottled LPG and the sale of gas appliances.

Construction of Gas Pipelines

During the year, in order to have better marketing planning for and accelerate the development of connection business, the Group continued to carry out the marketing project launched last year to enhance the project companies' performance in connection business.

As the Group's piped gas users only accounted for 10% of the total connectable population, it is expected that connection fees will continue to form a significant portion of the total revenue of the Group. As more and more of the Group's projects are being connected to piped natural gas sources, such as the West-to-East Pipelines, we will rely more on piped gas sources rather than on truck-transmitted gas sources, and hence will be able to meet large-scale gas demand. As a result, not only the number of residential households and commercial/industrial ("C/I") users of our gas projects will

increase rapidly, but also the Group's natural gas sales volume. It is expected that the proportion of connection fees to the Group's turnover will continue to increase steadily.

Residential Customers

Aiming at achieving a high natural gas penetration rate in every project city, the Group continued to devote lots of efforts to connecting more residential households during the year and consequently helped to protect the environment. The Group's piped gas business is a natural monopoly in nature. The main connection target of the Group will continue to be the residential households in new and existing buildings in the area covered by our pipeline network.

Throughout the PRC, local governments have tighter control in environmental protection, and existing coal-burning furnaces are being changed to gas-burning ones. These measures facilitate the development of the Group's business.

More and more residential households take the initiative to get connected to piped natural gas, and flats connected to

We will accelerate the gas infrastructure construction to increase penetration rate.



pipled natural gas have become popular and are preferred by new home buyers. These have boosted the connection business of the Group and lowered the Group's costs for developing new customers.

During the year, the government of PRC implemented macroeconomic measures, which affected the property industry, but its impact on the Group was trivial. As most of the Group's projects are medium-sized cities with real estates being economical residential housing, and the Group's operation strategy was to develop the whole city and made connections to not just new buildings, but also existing buildings and C/I customers, the macro-economic measures hardly affected the number of new connections made. With effective marketing strategies, the Group fulfilled its goal on the number of connections made. In addition, the completion of the West-to-East Pipelines Project creates favorable condition for the Group to develop new customers in massive scale. Therefore, the connection business growth for the year as a whole was still very good.

During the year, the Group made natural gas connections for 253,395

residential households, 66.5% more than last year. The average connection fee paid by households was RMB2,620, similar to that of last year.

As at the end of 2004, the Group provided natural gas connections to a total of 634,678 households, which accounted for 6.5% of the overall connectable population of the Group. Taken into account of the 116,961 acquired and converted natural gas users, the penetration rate would be 7.7%.

Commercial/Industrial Customers

During the year, the international oil price soared; the supply of electricity in the PRC was very tight, and 24 provinces in the PRC had restricted supply of electricity. On the contrary, piped natural gas is not just cheaper than other energy sources like electricity, coal gas and LPG, but also has stable selling price. Also, as the local governments in the PRC have put more efforts in controlling industrial pollution, many of them require coal to be replaced by clean energy sources, such as natural gas, and demand new commercial or industrial projects to use clean energy. In addition, gas sources commenced in projects along the West-to-East Pipelines in 2004, and the supply of natural gas is

no longer restrained by the lack of gas sources. Therefore, many C/I enterprises that used to use electricity, oil, coal and other fuels switch to using natural gas. As always, the major C/I customers of the Group are factories, hotels, shopping malls, schools and hospitals, etc. Unlike LPG, natural gas is more difficult to transport and store, and as a result, customers can only access to natural gas through our pipeline network, which facilitates our connection business.

During the year, the Group provided natural gas connections for 733 C/I customers (connected to gas appliances of a total installed designed daily capacity of 525,321 cubic meters). The average connection fee was RMB302 per cubic meter, 40.9% lower than last year. The main reason for the decrease was that the Group offered discounts to large C/I customers to increase the future gas sales volume because they will consume huge volume of gas and become the major gas users, and the Group can also fully utilize the contracted gas volume from West-to-East Pipelines.

Changsha, Xiangtan and Zhuzhou in Hunan Province will use the piped natural gas of Zhong-Wu Pipelines in 2005.



As at the end of 2004, the Group provided piped natural gas connections for a total of 1,515 C/I customers (connected to gas appliances of a total installed designed daily capacity of 1,058,114 cubic meters). If taken into account of the acquired and converted natural gas users, the Group would supply natural gas to a total of 2,023 C/I customers (connected to gas appliances of a total installed designed daily capacity of 1,214,314 cubic meters).

New Projects

In 2004, the Group continued to take an active role in the exploration of new projects. The Group's projects increased from 41 last year to 52 this year, and the connectable population grew tremendously by 55.7% to 29,128,000 (approximately 9,709,000 households) by the end of 2004 from 18,713,000 (approximately 6,238,000 households) last year. The growth in customer base was not only because of the acquisition of new projects, but also the growth in population size of our existing projects. This further stabilizes the Group's future income and makes the Group one of the professional city gas operators covering the largest population in the PRC.

New projects secured by the Group in 2004 are as follows:

Guangdong Province	Shantou, Zhanjiang
Guangxi Zhang Autonomous Region	Guigang, Guilin
Hebei Province	Luquan
Henan Province	Shangqiu
Inner Mongolia Autonomous Region	Tongliao
Shaanxi Province	Xianyang
Shandong Province	Yantai
Zhejiang Province	Huzhou, Longwan District in Wenzhou

After securing the provincial capital project Changsha last year, this year, the Group obtained Yantai, a million city with good C/I customer base. This has demonstrated once more the government's recognition of the Group's management ability, operation safety and financial strength, and it also enriches the Group's experience in managing large-scale city projects.

The Group continued to target at medium-to-large scale cities for its project development in 2004. The projects

secured during the year were in general cities with strong economy, well-developed industries and large population, such as Guilin, Shantou, Yantai, Zhanjiang, etc, which enable the Group to make even more connections in the future. Also, the Group devoted more efforts in strategic development of project cities. Founded on the achievements in 2003, the Group keeps on enhancing its market position in Guangdong, Guangxi and Zhejiang and creating an environment for sharing resources and advantages. The outstanding performance, good safety track record, reliable gas supply and quality service of the project companies has increased Xinao Gas' brand recognition and influence in the regions.

Sale of Piped Gas

During the year, the Group sold 104,912,000 cubic meters and 142,798,000 cubic meters piped gas to residential households and C/I customers respectively, representing increases of 1.3 times and 99.4% respectively over last year. The volume of gas sales to C/I customers made up 57.6% of the total volume of gas sales, showing that the Group had large consumers as a solid foundation to support the Group's long-term revenue.

As the West-to-East Pipelines commenced gas supply in 2004, making gas sources more abundant, the Group expects the volume of gas sales to increase further in the future. The strong increase in natural gas sales during the year did not just come from quality new projects the Group had successfully obtained, but also from successful marketing in existing projects. The high growth in the sales volume of natural gas also reflects that the use of natural gas as a good energy source has been well-received by the public.

As the gas sales volume for C/I customers is much higher than residential households, the Group will continue to develop the markets of both residential households and C/I customers, so as to enhance the Group's revenue structure and provide stabilized cash flow.

Gas Source

During the year, the Group established formal strategic cooperation relations with China Huayou (Group) Corporation and CNOOC Nanhai Western Corporation for securing large projects. Developing good cooperation relations with upstream suppliers does not just ensure that the Group has support for gas supply, but also increases the Group's competitiveness in developing new projects.

The Group actively engaged in the construction of emergency system for ensuring gas sources and establishing our own gas source bases to guarantee gas supply of various means and types. During the year, the LNG Project in Weizhou Island, Beihai, Guangxi invested by the Group commenced construction and is expected to be finished by 2005. This project, once in operation, will mainly

supply LNG to Zhanjiang Xinao Gas Company Limited, Guilin Xinao Gas Company Limited, Dongguan Xinao Gas Company Limited ("Dongguan Xinao") and other southern gas projects to be obtained by the Group. It can meet the gas demand of the projects and further reduce the purchase cost of gas.

After the long distance pipelines of the West-to-East Project commenced gas supply in 2003, more branch pipelines were built along the long distance pipelines in 2004. Currently, five project companies of the Group, namely, Xinxiang Xinao Gas Company Limited ("Xinxiang Xinao"), Chuzhou Xinao Gas Company Limited ("Chuzhou Xinao"), Changzhou Xinao Gas Company Limited ("Changzhou Xinao"), Bengbu Xinao Gas Company Limited ("Bengbu Xinao") and Huzhou Xinao Gas Company Limited ("Huzhou Xinao") have started to use the natural gas transmitted by the West-to-East Pipelines. With the completion of more branch pipelines of the West-to-East Pipelines and other pipeline constructions, more and more of the Group's projects will use natural gas transmitted by pipelines. It is expected that in 2005, projects in Hunan Province, namely, Changsha Xinao Gas Company Limited ("Changsha Xinao"), Xiangtan Xinao Gas Company Limited ("Xiangtan Xinao") and Zhuzhou Xinao Gas Company Limited ("Zhuzhou Xinao"), will use the natural gas transmitted by Zhong-Wu Pipelines. The Group expects that using natural gas transmitted by pipelines will minimize the purchase cost of gas, increase profit from piped gas sales and further enhance our ability for market development.

CNG Vehicle Refuelling Station

The Group has started the operation of compressed natural gas ("CNG") vehicle refuelling stations ("CNG stations") in Shijiazhuang City and Langfang City, Hebei Province, and 1,736 taxis and 353 buses have been converted into CNG vehicles. As the price of natural gas is on average 30-50% lower than gasoline, it is highly welcome by public vehicle companies and vehicle owners.

As the Group anticipates that the prospects of CNG stations in the PRC will be very positive, the Group has set up a department for CNG stations and planned to launch this business in our existing project cities extensively in 2005. We intend to set up 50 – 100 CNG stations in Qingdao, Liaocheng, Bengbu, Xinxiang and Shijiazhuang to further increase the Group's profit source and long term revenue. The Group can fully utilize our existing resources, including gas stations, pipeline networks, gas sources, human resources, brand name, etc., when developing CNG stations in our operating locations, and hence can have good return of investment in a short period.

Since vehicle emission is now a major source of pollution in the large cities in the PRC, it is believed that the PRC government will promote policies of converting vehicles to using clean energy. This will further accelerate the development of CNG stations. The Group expects that CNG stations will become one of the major components in our gas sales business.

Advanced Collection System for Gas Usage Charges

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

Starting from this year, some of the Group's project companies cooperated with banks to reach a win-win situation – our gas project companies use the widespread network resources of the banks for collecting gas usage charges, and the banks use the Group's customer resources for expanding their business. This cooperation makes it more convenient for our customers, reduces the Group's administrative costs and increases cost efficiency.

Sale of LPG

During the year, the Group sold 37,760 tons of LPG, decreased by 28.3% over last year. The Group has been principally engaged in the sale of piped natural gas, and LPG is only sold in certain project cities as a transitional gas source, as the gross profit margin and the net profit margin of LPG are relatively low. Bengbu Xinao, Huaian Xinao Gas Company Limited and Xinxiang Xinao are engaged in the wholesaling and/or retailing of LPG, and the sales volume of these three projects makes up 80% of the total volume of LPG sales.

Before being taken over by the Group, the principal business of these companies was the sale of LPG. They have all started to construct natural gas pipelines after the Group's acquisition, and LPG are only sold to customers not connected to piped natural gas or in peripheral towns. The Group expects that the sales of LPG of these projects will gradually be replaced by piped natural gas, and the average ratio of LPG sales volume to piped natural gas sales volume in these three projects changed from 80% to 20% last year to 65% to 35% this year, which shows that piped and bottled LPG are being replaced by piped natural gas.

The operating profit of LPG increased from RMB369,000 last year to RMB908,000 this year.

Sale of Gas Appliances

The Group sells cooking stoves, water boilers, heaters and stored-value card meters besides providing gas connections. During the year, the Group sold a total of 59,526 cooking stoves, 8,774 water boilers and 4,411 heaters. Most of the meters produced were used by the Group in its own connection business.

The production capacity of the stored-value card meter factory of the Group reached 600,000 in 2004. The factory mainly supplies the meters to be installed in residential households when the Group makes gas connections. Customers can have gas supply when they insert their prepaid stored-value cards into the meters. After the establishment of the production line, the average cost of stored-value card meters has dropped by 30%, and the connection costs of the Group has been substantially lowered.

Besides, among the stored-value card meters sold in 2004, 22,706 were sold to other gas distributors, meaning that the production of stored-value card meters not only reduces costs, but also generates additional income for the Group.

Gross Profit Margin and Net Profit Margin

The Group's overall gross profit margin was 40.9%, similar to that of last year, and net profit margin decreased from 20.9% last year to 17.5% this year. It was mainly because the projects the Group secured got larger, and the percentage of minority interests in net profit increased from 6.7% last year to 17.4% this year. The Group's operation efficiency remained at about the same level as last year if it was evaluated by profits before minority interests.

As LPG and coal gas will be replaced by natural gas gradually, and the gas supply of the branch pipelines of West-to-East Project and Zhong-Wu Pipelines will commence in the coming year, the Group expects that it will facilitate large sales volume of natural gas with lower cost and further increase the profits from piped gas sales.

To reduce the Group's operation costs and increase its profit, the Group cooperated with BearingPoint Management Consulting Limited during the year to conduct research on issues like cost control and budget management, and the Group introduced many advanced management ideas and management tools, such as reverse auction, point baseline scorecard, rolling budget, process cost and benchmark management. It paves the way for the Group for better cost control, budget management and



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

financial management, and its effects are expected to become manifest in 2005.

Advanced Management System

The Group recognizes that safety is the basis of our business, and safe operation is of primary importance. The Group continued to maintain excellent safety track record last year, making a record of 12 years of continuous safe operation. The Group also uses many resources on the technical team and equipment for safe operation and uses advanced information technology system for daily operations and management. During the year, the Group made use of the advanced experience of the gas industry in the UK for reference and improved and perfected the Group's safety management handbook and emergency procedures, which further raised the safe operation standards.

In 2004, Liaocheng Xinao Gas Company Limited ("Liaocheng Xinao") and Beijing Xinao Jingchang Gas Company Limited finished the construction of information technology systems, and Liaocheng Xinao and Bengbu Xinao completed the construction of Geographic Information System. Apart from enhancing

the operation and service efficiency and lowering the cost of operation of the Group, these systems also help the Group to ensure safe operation.

To increase the ability for safe operation, the Group brought in advanced gas safety training and recognition system from the UK, which will enhance the professional qualification and skills of the staff for providing better services to customers. The Group cooperated with Utilise Training & Development Solutions Limited to establish a gas professional training center, which was launched in March 2004. This cooperation project has been supported by the British Consulate, Ministry of Construction of the PRC and Energy Bureau, NDRC. During the year, the training center conducted 27 sessions of training courses, and 360 of our staff members passed the Operational Qualification and Recognition Examination (Level 1). This lays a solid foundation for the Group to operate more safely and professionally. In 2005, the Group will introduce Level 2 and Level 3 Examination for the staff and foster more qualified personnel to enhance further safety and operational efficiency.

During the year, we continued to use various means, such as setting up social service monitoring network and service complaint hotlines and organizing customer opinion campaign, to collect from the customers useful opinions on installation works and after-sales services. By enhancing the service quality of the Group, we can further boost our brand recognition and image and facilitate the development of connection service.

Outstanding Management

Because of the excellent management, the Company continued to receive many awards from various prominent international financial magazines during the year: "Overall Best Managed Company in China (Medium Cap)" by *AsiaMoney* for the first time, and five other individual awards, namely, "Clearest Corporate Strategy", "Best Financial Management", "Best Investor Relations", "Best Annual Reports" and "Most Improved Website"; "Chinese Business 500" for four consecutive years and "Top 20 Chinese Enterprises of Highest Total Asset Growth" for two consecutive years by *Yazhou Zhoukan*.



We maintain good and long term relations with customers by providing quality customer service.



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

Customer Service

Quality customer service is the key for maintaining good and long term relations between the Company and customers. Because of our quality service, the project companies of the Group have won recognition and credit from local customers as well as government authorities in the cities they operate and become the models for other public utilities to follow. The best evidence is that many of the project companies were awarded "Unit with High Consumer Satisfaction" by local consumer councils during the year.

In 2004, Dongguan Xinao, Kaifeng Xinao Gas Company Limited, Lianyungang Xinao Gas Company Limited and Beijing Xinao Gas Company Limited also launched the "95158" national 24-hour hotline,

which means that 11 project companies have launched such service. Our customers can simply dial 95158 to access their local 24-hour customer service centre and communicate with us conveniently. In case of emergency, we uphold our promise to arrive at the site within 20 minutes to carry out repair work. Our emergency-repair vehicles are approved by the local governments to be equipped with sirens similar to those on police cars, and we are also hooked-up in the 110 network, so that we will be able to handle any emergency situations immediately and efficiently.

In addition, the project companies of the Group follow the Group's unified requirements to issue leaflets of "Gas Usage Safety Standards" to our customers and conduct safety checks twice a year on pipeline networks and customers' gas appliances. As prevention is always better than cure, these measures help to eliminate potential safety problems, and thus increase the trust of our customers.

Human Resources

We always believe that our employees are our most valuable assets and the basis of the Group's competitiveness; the Group's continuous development and

success are rooted at our human resources. Therefore, we uphold the principle of "based on people" and put great emphasis on recruitment and internal training.

During the year, we recruited high-calibre undergraduates from renowned universities all over the PRC as well as experienced professionals in the industry or from overseas according to our development needs. Each new staff member was given internal training and deployed to different departments and subsidiaries to have a good understanding of the Group's culture and operations, so that they could provide quality customer services and the smooth operation of the Company could be ensured.

The Group encourages staff to have lifelong learning and offers learning and studying opportunities to employees as a form of benefits and rewards. Therefore, we have sponsored some employees to study for MBA or to attend other related technical courses in renowned universities, such as Tsinghua University, so as to enhance their competence, professional skills and quality.

The Group also arranges two days of training each month to all employees to broaden their horizons and increase their ability, and the lecturers are mainly university professors or local and overseas management experts. We set up mailbox to the general manager, staff forums, staff representative meetings and other platforms to give opportunities for staff to communicate with the management, so that the management can understand the frontline problems and make appropriate adjustments.

In addition, the Company regularly invites family members of the employees to attend various functions, such as seminars or dinner parties, etc., to strengthen communications and affections between staff and the Company, and to enhance the sense of belonging of staff towards the Group.

As at 31 December 2004, the Group had 7,820 employees, of which five based in Hong Kong and the others based in the PRC. They were remunerated at market level with benefits like bonus, retirement benefits, professional training, share option scheme, etc.

FINANCIAL RESOURCES REVIEW

Liquidity and Financial Resources

As at 31 December 2004, the Group's cash on hand was RMB911,537,000 (2003: 487,129,000), and its total bank and other borrowings amounted to RMB1,917,160,000 (2003: 1,111,926,000). Its net gearing ratio, i.e. the ratio of net debt to equity, was 52.6% (2003: 54.9%).

Share Placement

To meet the capital demand for development and obtaining new projects, the Company placed 122,000,000 shares to international asset management companies and professional investors at the price of HK\$3.84 per share, and the net proceeds were HK\$456,000,000 (equivalent to RMB483,360,000). As planned, the proceeds were used for new gas project companies, CNG vehicle refuelling station business and general working capital. The market response for the placement was very positive. Apart from providing the capital the Group required, this placement has also enlarged the Group's shareholder base and capital base and hence enhanced the Group's strength.

Loans from IFC, Who also Becomes Long Term Shareholder of the Company

In the first half of the year, the Group successfully brought in International Finance Corporation ("IFC"), the private sector arm of the World Bank Group, as our long term shareholder. IFC also agreed to provide five-year loans for a total of US\$25,000,000 (equivalent to RMB206,700,000) to the project companies of the Group, and the loans were drawn in the second half of the year as part of their working capital. The fact of IFC becoming the Group's shareholder and lender does not just illustrate the Group's distinctive status, ability and positive prospects, but also shows IFC's recognition of the Group's importance and contribution in the environmental industry.

Under the above US\$25,000,000 Loan Agreements, the Company, Mr. Wang Yusuo ("Mr. Wang") and the Borrowers (i.e. Bengbu Xinao, Shijiazhuang Xinao Gas Company Limited and Xiangtan Xinao, which are all subsidiaries of the Company) have entered into the Share Retention Agreements with IFC on 18 May 2004 whereby Mr. Wang has agreed that, so long as any monies remain due or to become due and owing by the Borrowers to IFC under or in respect of the Loan Agreements, he and Ms. Zhao Baoju ("Ms. Zhao") will own, in aggregate, directly or, at any time that he and Ms. Zhao own in aggregate all the shares in the capital of Easywin Enterprises Limited ("Easywin"), indirectly through Easywin, at least 35% of the issued share capital of the Company. Mr. Wang and Ms. Zhao are the beneficial and legal owners of Easywin, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. As at 31 December 2004, Easywin and Mr. Wang together held 44.67% interests of the Company.

Five-Year Zero Coupon Convertible Bonds

Planning to obtain more new projects for development, the Company seized the chance of the record-low interest rate in the USA in 40 years and issued five-year convertible bonds in an aggregate principal amount of HK\$550,000,000 on 15 November 2004. The bonds are zero coupon bonds; the issue price is 100% whereas the redemption price is 106.43%, which means that the effective interest rate is 1.25% per annum. The bondholders have the option to require

the Company to redeem the bonds 2.5 years after the issue date. If the bondholders do not exercise the option of redemption, then they have to hold the bonds to maturity or exercise the conversion right during the conversion period. Bondholders can exercise the conversion right between 15 December 2004 and 15 November 2009 and convert the bonds into ordinary shares of HK\$0.10 each of the Company, and the Company has the option to issue share or pay cash in lieu of shares to such bondholders. The conversion price for each ordinary share at the issue date of the bonds was HK\$5.4375, which is subject to adjustment for events, if any, which may have diluting effects after the issue. If all the bonds are converted into shares, 101,145,000 ordinary shares of the Company will be issued, equivalent to 11.66% of the total issued capital of the Company as at 31 December 2004. No one exercised conversion right as of 31 December 2004. The net proceeds of HK\$534,205,000 from this bond issue are mainly used for repaying the syndication loan of the Company due in 2005 and for developing gas markets in the PRC. The bond issue has brought long term capital at low cost to the Group, met the Group's demand for development and fully utilized low-cost capital to increase shareholders' wealth.

Currently, the Group's operating and capital expenditures are funded by operating cash flow, internal liquidity, bank loans and convertible bonds issued. The Group has sufficient unutilized banking facilities to meet the future capital expenditure and working capital requirements.

Borrowings Structure

As at 31 December 2004, the Group's total bank and other borrowings amounted to RMB1,917,160,000 (2003: RMB1,111,926,000), including zero coupon convertible bonds of HK\$535,438,000 (equivalent to RMB567,564,000), loans of US\$90,000,000 (equivalent to RMB744,120,000) and a secured loan of HK\$11,240,000 (equivalent to RMB11,914,000). Apart from the zero coupon convertible bonds, the other US dollar and HK dollar loans bear interest at floating rates, and the remaining bank and other borrowings are denominated in Renminbi at fixed interest rates. The project companies used the Renminbi loans as their working capital and operational expenditure. Except for the loan amount of RMB45,734,000 that has to be secured by assets with the net asset value of approximately RMB116,168,000, all of the other loans are unsecured. Short-term loans amounted to RMB643,441,000 while the remaining were long-term loans falling due after more than a year.

As all the operations of the Group are in the PRC, revenues and expenses were mainly denominated in Renminbi. Hence, there were no significant foreign exchange exposures or risks. The Group has entered into currency and interest rate swap contracts for all US dollar loans in order to fix the exchange rates and reduce the interest rates.

Contingent Liabilities

As at 31 December 2004, the Group did not have any contingent liabilities (2003: Nil).

Capital Commitments

As at 31 December 2004, the Group's capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for was RMB22,673,000 (2003: RMB25,561,000) and authorised but not contracted for was RMB14,200,000 (2003: RMB14,200,000).

POWER OF MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WANG Yusuo, aged 40, is the co-founder, chairman and an executive Director of the Company. He is responsible for overseeing the Group's overall strategic planning. Mr. Wang has over 19 years of experience in the investment in, and the management of, the gas business in the PRC. He holds a master's degree in management from the Tianjin University of Finance and Economics. Mr. Wang is currently a committee member of the Tenth Chinese People's Political Consultative Conference and a Vice Chairman of the Ninth Executive Committee of the All-China Federation of Industry and Commerce. He has won various awards, including Hebei's Top 10 Outstanding Young Persons and Outstanding Entrepreneurs in China. Mr. Wang is the spouse of Ms. Zhao Baoju and the brother-in-law of Mr. Zhao Jinfeng.

Mr. YANG Yu, aged 47, is an executive Director and the chief executive officer of the Company responsible for managing and implementing the Group's investment in the PRC, ensuring the safety

of the Group's projects, securing gas supply and further increasing gas investments and markets in the PRC. Prior to joining the Group in 1998, he worked at the China Oil and Gas Pipeline Bureau. He graduated from the Pipeline Bureau Staff College of the Ministry of Petroleum Industry in 1985 and obtained a master's degree in banking from Renmin University of China in 1999. Mr. Yang has over 19 years of experience in the PRC gas industry.

Mr. CHEN Jiacheng, aged 42, is an executive Director and the general manager of the Company. Mr. Chen joined the Group in 2002 and is responsible for business administration and management of the Group's gas projects. He holds a bachelor's degree in engineering from Northwest Industrial University and a master's degree in business administration from Tsinghua University. Mr. Chen has over 12 years of experience in business administration and management.

Mr. ZHAO Jinfeng, aged 37, is an executive Director and deputy general manager of the Company responsible for assisting the chief executive officer in managing and implementing the Group's investment projects in the PRC. He graduated from the Township and Village Enterprise Cadre College of the Ministry of Agriculture and worked at Langfang City Electrical Company as an economist for resources management prior to joining the Group in 1993. Mr. Zhao has over 12 years of experience in the PRC gas industry. Mr. Zhao is the brother of Ms. Zhao Baoju and the brother-in-law of Mr. Wang Yusuo.

Mr. QIAO Limin, aged 46, is an executive Director and deputy general manager of the Company responsible for the safety and operational matters of the Group. Prior to joining the Group in 1993, he worked at Baotou City Education College and was an assistant lecturer at Langfang City Health College. He graduated from Baotou City Education College in 1984. Mr. Qiao has over 12 years of experience in managing gas projects and supervising gas supply operations and safety.



WANG Yusuo



YANG Yu



CHEN Jiacheng



ZHAO Jinfeng



QIAO Limin



JIN Yongsheng



YU Jianchao



CHEUNG Yip Sang



CHENG Chak Ngok

Mr. JIN Yongsheng, aged 41, is an executive Director and deputy general manager of the Company responsible for overseeing legal and administrative matters and investors' relationship of the Group. He graduated from the Tianjin University of Finance and Economics in 1986, specializing in finance. Prior to joining the Group in 1996, he was an assistant professor in the Township and Village Enterprise Cadre College of the Ministry of Agriculture. Mr. Jin is a qualified practicing lawyer in the PRC and has over 15 years of experience in legal practice.

Mr. YU Jianchao, aged 36, is the finance Director of the Company and has joined the Group since January 1998. He graduated from the Hebei Economics and Finance College in 1993 and worked as the chief accountant for a number of foreign enterprises, including GSK (Langfang) Co., Ltd. and Nissin Foods Co., Ltd. prior to joining the Group. Mr. Yu has over 12 years of experience in accounting and finance.

Mr. CHEUNG Yip Sang, aged 38, is an executive Director and deputy general manager of the Company responsible for exploring the piped gas market in the PRC. He holds a bachelor's degree in Legal Studies awarded by The Chinese People's Armed Police Force Academy. Prior to joining the Group in February 1998, he was the sales manager of Eastern Guangdong Region of Shantou Jiadan Beer Company Limited. Mr. Cheung is experienced in marketing and sales.

Mr. CHENG Chak Ngok, aged 34, is an executive Director, financial controller and company secretary of the Company responsible for accounting, financial management and corporate finance as well as investor relations. Prior to joining the Group in November 2000, he worked at an international accounting firm and also worked as the chief accountant of a freight forwarding company. He graduated from Manchester Metropolitan University with a first class honours bachelor's degree in accounting and finance. He is a fellow member of the Association of Chartered Certified Accountants in England, and also an associate member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators in England. Mr. Cheng has 12 years of experience in accounting, financial management and corporate finance.

NON-EXECUTIVE DIRECTOR

Ms. ZHAO Baoju, aged 39, is the co-founder and a non-executive Director of the Company. She has over 12 years of experience in investing in gas fuel projects in the PRC. She graduated from the Hebei Medical College Nursing School in 1987 and the Chinese Language Faculty of Capital Normal University in 1998. Ms. Zhao is the spouse of Mr. Wang Yusuo and the sister of Mr. Zhao Jinfeng.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WANG Guangtian, aged 41, 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 22 years of experience in financial and administrative management. He is currently the deputy general manager of Hebei Enterprises Limited, the window company incorporated in Hong Kong for the Hebei Provincial Government, the general manager of Overseas Way (China) Limited, a company incorporated in Hong Kong, and the executive director and general manager of China Sci-Tech Holdings Limited.

Ms. YIEN Yu Yu, Catherine, aged 34, is currently an assistant director of N M Rothschild & Sons (Hong Kong) Limited. She graduated from the Imperial College of Science, Technology and Medicine of University of London in England with a Joint Honours Degree in Mathematics with Management (BSc Hons). Ms. Yien is a holder of the Chartered Financial Analyst designation and an ordinary member of the Hong Kong Securities Institute. She has extensive experience in the areas of corporate finance, investment, mergers and acquisitions.

Mr. KONG Chung Kau, aged 36, is currently a sole proprietor of C.K. Kong & Co. Certified Public Accountants. Mr. Kong is a Certified Public Accountant holding practicing certificate. He is a fellow member of the Association of Chartered Certified Accountants and also an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Kong has extensive experience in auditing, tax planning and finance.

SENIOR MANAGEMENT

Mr. JU Xilin, aged 47, is the deputy general manager of the Company and general manager of Hebei areas, responsible for market development and operation. He graduated from the Communist Party College of Heilongjiang Province in 1987, specializing in economy management. Prior to joining the Group in January 1996, he worked in state-owned enterprises where he was responsible for the operational management of those enterprises. Mr. Ju has over 22 years of experience in operational management.

Mr. HAN Jishen, aged 40, is a deputy general manager of the Company and general manager of Hunan areas, responsible for market development and operation. He graduated from Baoding Staff College in 1990. Mr. Han joined the Group in 1993 and is responsible for management and operations. He has over 12 years of experience in the gas fuel industry in the PRC.

Mr. ZHENG Haiyan, aged 38, is the Chief Engineer of the Company responsible for the management of technology and quality. He graduated from the Cadre College of the Ministry of Agriculture For Township and Village Enterprises and is now studying for a master's degree in business administration at Hong Kong Baptist University. Prior to joining the Group in 1993, Mr. Zheng was an engineer of Installation Works Company of the Ministry of Light Industry of the PRC. He has been appointed to be a standing committee member of China Coal Gas Association. Mr. Zheng has over 12 years of experience in gas industry in the PRC.

Mr. LIANG Zhiwei, aged 41, is the Chief Economist of the Company responsible for internal management and operation. He graduated from Guilin Institute of Metallurgy and the Faculty of Resource and Environmental Engineering at the University of Science and Technology Beijing. He obtained a master of engineering degree from the University of Science and Technology Beijing in 1993. Prior to joining the Group in 1999, Mr. Liang had worked for No. 1 Bureau of the China Exploration and Engineering Bureau for 15 years.

Mr. WANG Dongzhi, aged 36, is the head of finance department of the Company. Mr. Wang graduated in 1991 with a bachelor's degree in engineering management from Beijing Chemical College (now known as Beijing Chemical University). Mr. Wang obtained a bachelor's degree in economics in 1996, the qualifications of a Certified Accountant in the PRC in 2000 and a master's degree in business management from Tianjin University in 2003. Before joining the Group in August 2000, Mr. Wang was in charge of the finance department of a Sino-foreign joint venture company. He has extensive experience in treasury and cost control.

Mr. YANG Junjie, aged 33, is the Deputy Chief Engineer of the Company responsible for technical research and development and technical management. He joined the Group in 2001. Mr. Yang obtained a bachelor degree of engineering from Chongqing Construction University (now known as Chongqing University), specializing in city gas engineering. He also obtained a master degree and a doctorate degree in heat supply, gas supply, ventilation and air-conditioning engineering from Shanghai Tongji University in 1997 and 2001 respectively. Mr. Yang has extensive academic attainments and rich experiences in city gas transmission and application.

DIRECTORS' REPORT

The Directors have pleasure in submitting to shareholders their annual report and the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 50.

The directors recommend the payment of a final dividend of HK\$2.71 cents (equivalent to approximately RMB2.87 cents) per share to the shareholders on the register of members on 23 May 2005. The total dividend amount is approximately RMB25,254,000, and the retention of the remaining profit for the year is approximately RMB227,003,000.

FINANCIAL SUMMARY

Details of the summary of the published financial information of the Group for the past six years are set out on page 21.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB965,402,000 has been incurred in acquiring property, plant and equipment.

During the year, the Group revaluated its properties, resulting in a revaluation surplus amounting to RMB26,460,000. This has been credited directly to the revaluation reserve.

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

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 29 to the financial statements.

RESERVES

Details of movements during the year in the reserves of the Company and the Group are set out in note 31 to the financial statements.

BANK AND OTHER LOANS

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

CHARITABLE DONATIONS

Charitable donations by the Group for 2004 amounted to RMB56,000 (2003: RMB1,974,000).

DIRECTORS

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

Executive Directors:

Wang Yusuo	(Chairman)
Yang Yu	(Chief Executive Officer)
Chen Jiacheng	
Zhao Jinfeng	
Qiao Limin	
Jin Yongsheng	
Yu Jianchao	
Cheung Yip Sang	
Cheng Chak Ngok	

Non-executive Director:

Zhao Baoju

Independent non-executive Directors:

Wang Guangtian	
Xu Liang	(resigned on 31 March 2005)
Yien Yu Yu, Catherine	(appointed on 28 September 2004)
Kong Chung Kau	(appointed on 31 March 2005)

In accordance with Articles 99 and 116 of the Company's Articles of Association, Messrs Qiao Limin, Jin Yongsheng, Cheng Chak Ngok and Kong Chung Kau and Ms. Yien Yu Yu, Catherine retire by rotation and, being eligible, offer themselves for re-election.

Each of the executive Directors has entered into a service agreement with the Company. Each service agreement is of an initial term of three years commencing 1 March 2001, except that of Messrs Cheung Yip Sang and Cheng Chak Ngok, appointed on 10 April 2002 with an initial term commencing on the same day, and Mr. Chen Jiacheng, appointed on 21 May 2003 with an initial term commencing on the same day. The initial term of each service agreement expires on 29 February 2004, and each service agreement shall continue thereafter until terminated by either party giving to the other not less than six months' prior written notice.

Ms. Zhao Baoju and Mr. Wang Guangtian have been appointed for an initial term of three years, commencing 1 March 2001 and expiring on 29 February 2004, and then they have signed a new service agreement for a term of three years, commencing on 1 March 2004 and expiring on 28 February 2007. The service agreement of Ms. Yien Yu Yu, Catherine commences on 28 September 2004 and expires on 27 September 2007. The service agreement of Mr. Kong Chong Kau commences on 31 March 2005 and expires on 30 March 2008.

DISCLOSURE OF INTERESTS

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

As at 31 December 2004, the interest and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

Name of Director	Capacity	Personal interests	Interests in shares Corporate interests	Family interests	Total interests in shares	Interests in underlying shares pursuant to share options	Aggregate interests	Approximate percentage of the Company's total issued share capital
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	3,044,000 (Note 1)	384,486,000 (Note 2)	–	387,530,000	2,300,000 (Note 3)	389,830,000	44.94%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation		384,486,000 (Note 2)	3,044,000 (Note 1)	387,530,000	2,300,000 (Note 3)	389,830,000	44.94%
Mr. Yang Yu	Beneficial owner	–	–	–	–	3,350,000	3,350,000	0.39%
Mr. Chen Jiacheng	Beneficial owner	–	–	–	–	2,300,000	2,300,000	0.27%
Mr. Zhao Jinfeng	Beneficial owner	–	–	–	–	1,775,000	1,775,000	0.20%
Mr. Qiao Limin	Beneficial owner	–	–	–	–	1,025,000	1,025,000	0.12%
Mr. Jin Yongsheng	Beneficial owner	–	–	–	–	2,100,000	2,100,000	0.24%
Mr. Yu Jianchao	Beneficial owner	–	–	–	–	2,100,000	2,100,000	0.24%
Mr. Cheung Yip Sang	Beneficial owner and interest of spouse	–	–	–	–	1,887,500 (Note 4)	1,887,500	0.22%
Mr. Cheng Chak Ngok	Beneficial owner	–	–	–	–	450,000	450,000	0.05%

Note:

- The two references to 3,044,000 shares relate to the same block of shares, which are held by Mr. Wang. Ms. Zhao is the spouse of Mr. Wang and is taken to be interested in the shares held by spouse under the SFO.
- The two references to 384,486,000 shares relate to the same block of shares. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao.
- Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.
- Out of 1,887,500 underlying shares, 125,000 underlying shares were granted to Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang. Mr. Cheung Yip Sang is taken to be interested in the underlying shares held by spouse under the SFO.

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

Save as disclosed above, as at 31 December 2004, the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

DISCLOSURE OF INTERESTS *(continued)*

Directors' rights to acquire shares

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

Name of Director	Date of Grant	Exercise period	Exercise Price	Number of shares subject to outstanding options as at 1 January 2004	Number of options exercised as at 31 December 2004	Number of shares subject to outstanding options as at 31 December 2004	Approximate percentage of the Company's total issued share capital
Mr. Wang	14.02.2003 (Note 4)	15.08.2003 – 14.02.2013	2.265 (Note 3)	2,300,000	–	2,300,000 (Note 2)	0.27%
Ms. Zhao	14.02.2003 (Note 4)	15.08.2003 – 14.02.2013	2.265 (Note 3)	2,300,000	–	2,300,000 (Note 2)	0.27%
Mr. Yang Yu	14.02.2003 (Note 4)	15.08.2003 – 14.02.2013	2.265 (Note 3)	3,350,000	–	3,350,000	0.39%
Mr. Chen Jiacheng	14.02.2003 (Note 4)	15.08.2003 – 14.02.2013	2.265 (Note 3)	2,300,000	–	2,300,000	0.27%
Mr. Zhao Jinfeng	14.02.2003 (Note 4)	15.08.2003 – 14.02.2013	2.265 (Note 3)	2,200,000	(425,000) (Note 6)	1,775,000	0.20%
Mr. Qiao Limin	14.02.2003 (Note 4)	15.08.2003 – 14.02.2013	2.265 (Note 3)	2,050,000	(1,025,000) (Note 6)	1,025,000	0.12%
Mr. Jin Yongsheng	14.02.2003 (Note 4)	15.08.2003 – 14.02.2013	2.265 (Note 3)	2,100,000	–	2,100,000	0.24%
Mr. Yu Jianchao	14.02.2003 (Note 4)	15.08.2003 – 14.02.2013	2.265 (Note 3)	2,100,000	–	2,100,000	0.24%
Mr. Cheung Yip Sang	14.02.2003 (Note 4)	15.08.2003 – 14.02.2013	2.265 (Note 3)	2,250,000	(362,500) (Note 6)	1,887,500 (Note 5)	0.22%
Mr. Cheng Chak Ngok	14.02.2003 (Note 4)	15.08.2003 – 14.02.2013	2.265 (Note 3)	600,000	(150,000) (Note 6)	450,000	0.05%

No fair value of the options granted is disclosed as in the opinion of the Directors, certain assumptions need to derive the fair values using the Black-Scholes option pricing model and these cannot be reasonably determined for such share options.

DISCLOSURE OF INTERESTS (continued)**Directors' rights to acquire shares (continued)**

Note:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.
3. The closing price of the shares immediately before the date on which the options were granted was HK\$2.25.
4. On 14 February 2003, the Directors had granted options to subscribe for an aggregate of 32,300,000 shares of the Company under the share option scheme, out of which 19,250,000 share options were granted to the Directors and 13,050,000 share options were granted to the employees of the Group. As at 31 December 2004, 8,487,500 share options were exercised, of which 1,962,500 share options were granted to directors and 6,525,000 share options were granted to employees; There are 23,812,500 share options outstanding, representing approximately 2.74% of the total issued capital of the Company as at 31 December 2004.
5. Out of 1,887,500 underlying shares, 125,000 underlying shares were granted to Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang. Mr. Cheung Yip Sang is taken to be interested in the underlying shares held by his spouse under the SFO.
6. The weighted average closing price per share immediately before the date on which the options were exercised was HK\$4.205.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of shareholder	Capacity	Interests in shares			Total interests in shares	Interests in underlying shares pursuant to share options	Aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests	Family interests				
Easywin Enterprises Limited	Beneficial owner	–	384,486,000 (Note 2)	–	384,486,000	–	384,486,000	44.32%
Mr. Wang	Beneficial owner & interest of controlled corporation	3,044,000 (Note 1)	384,486,000 (Note 2)	–	387,530,000	2,300,000 (Note 3)	389,830,000	44.94%
Ms. Zhao	Interest of spouse & interest of controlled corporation	–	384,486,000 (Note 2)	3,044,000 (Note 1)	387,530,000	2,300,000 (Note 3)	389,830,000	44.94%
TIAA-CREF Investment Management, LLC	Investment manager	–	60,296,000	–	60,296,000	–	60,296,000	6.95%
The Capital Group Companies, Inc.	Investment manager	–	53,421,000	–	53,421,000	–	53,421,000	6.16%

Notes:

1. The two references to 3,044,000 shares relate to the same block of shares, which are held by Mr. Wang. Ms. Zhao is the spouse of Mr. Wang and is taken to be interested in the shares held by spouse under the SFO.
2. The three references to 384,486,000 shares relate to the same block of shares. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao.
3. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

SUBSTANTIAL SHAREHOLDERS *(continued)*

Save as disclosed above, as at 31 December 2004, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company.

Save for the shareholders as disclosed herein, the directors are not aware of any persons who, as at 31 December 2004, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

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

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

On 1 January 2001, Langfang Xinao leased a staff quarter situated in Langfang City to Langfang Xinao Property Management and another staff quarter also situated in Langfang City to Xinao Group Company Limited (XGCL) (note 1) and signed contracts with them individually for a term of four years with annual rental of RMB330,000 and RMB436,000 respectively.

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

On 6 January 2003, Haining Xinao Gas Company Limited ("Haining Xinao"), the indirect non-wholly-owned subsidiary of the Company, leased a gas station from Haining Wantong Gas Company Limited ("Haining Wantong"), the PRC JV partner of Haining Xinao, and signed a contract without fixed term with an annual rent of RMB50,000.

On 1 April 2003, Haining Xinao signed contract for a term of 1 year and would continue thereafter with Haining Mintai Coal Gas Company ("Haining Coal Gas"), the PRC JV partner of Haining Xinao, for leasing an office building with annual rent of RMB120,000 from Haining Coal Gas. During the year, Haining Xinao also purchased gas from Haining Coal Gas for a consideration of RMB705,000.

On 28 May 2004, Langfang Xinao entered into the shares transfer agreement with Zhucheng City Gas and Heating Corporation, the PRC JV partner of Zhucheng Xinao Gas Company Limited ("Zhucheng Xinao"), the indirect non-wholly-owned subsidiary of the Company, whereby Langfang Xinao acquired 20% interest in Zhucheng Xinao for a consideration of RMB5,000,000. Upon the completion of the acquisition, the Group's equity interests in Zhucheng Xinao increased from 80% to 100%, thereby increasing the Group's share of profit in Zhucheng Xinao by 20%.

During the year, Xinao Gas Development Company Limited ("Xinao Gas Development"), the indirect wholly-owned subsidiary of the Company, provided gas connection services to Langfang Xincheng Property Development Company Limited ("Xincheng Property") (note 1) with the contract sum of RMB18,412,000.

During the years, Shijiazhuang Xinao Gas Company Limited ("Shijiazhuang Xinao"), the indirect non-wholly-owned subsidiary of the Company, provided gas connection services to Shijiazhuang Enric Gas Machinery Company Limited ("Shijiazhuang Enric") (note 1) with the contract sum of RMB3,600,000.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (continued)

During the year, the subsidiaries of the Company, including Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), Changsha Xinao Gas Company Limited ("Changsha Xinao"), Changzhou Xinao Gas Company Limited ("Changzhou Xinao"), Guilin Xinao Gas Company Limited ("Guilin Xinao"), Haian Xinao Gas Company Limited ("Haian Xinao"), Huaian Xinao Gas Company Limited ("Huaian Xinao"), Laiyang Xinao Gas Company Limited ("Laiyang Xinao"), Langfang Xinao, Lianyungang Xinao Gas Company Limited ("Lianyungang Xinao"), Liaocheng Xinao Gas Company Limited ("Liaocheng Xinao"), Liaocheng Xinao Gas Engineering Company Limited ("Liaocheng Gas Engineering"), Qingdao Xinao Gas Company Limited ("Qingdao Xinao"), Qingdao Xinao Jiaocheng Gas Company Limited ("Jiaocheng Xinao"), Qingdao Xinao Jiaonan Gas Company Limited ("Jiaonan Xinao"), Qingdao Xinao Xincheng Gas Engineering Company Limited ("Xincheng Gas Engineering"), Shijiazhuang Xinao, Taixing Xinao Gas Company Limited ("Taixing Xinao"), Tongliao Xinao Gas Company Limited ("Tongliao Xinao"), Wenzhou Xinao Gas Company Limited ("Wenzhou Xinao"), Xinao Gas Development, Xinghua Xinao Gas Company Limited ("Xinghua Xinao"), Xinxiang Xinao Gas Company Limited ("Xinxiang Xinao"), Yangzhou Xinao Gas Company Limited ("Yangzhou Xinao") and Yantai Xinao Gas Company Limited ("Yantai Xinao"), purchased natural gas truck trailers, pressure regulating and gas equipment from Xinao Group Shijiazhuang Chemical and Machinery Company Limited ("Xinao Machinery") (note 1) and Enric Bengbu Compressor Company Limited "Enric Bengbu") (note 1) in order to operate the distribution of natural gas. The total considerations of the contracts are RMB22,380,000 and RMB11,603,000.

During the year, Changzhou Xinao, Kaifeng Xinao, Liaocheng Xinao, Qingdao Xinao Xincheng Gas Company Limited ("Xincheng Xinao") and Xinao Gas Equipment Company Limited ("Xinao Gas Equipment") purchased gas appliances from Xinao Group International Economic Development Company Limited ("Xinao Group International") (Note 1) for a consideration of RMB752,000.

During the year, Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), the indirect non-wholly-owned subsidiary of the Company, provided gas connection services to Bengbu Xinao Property Company Limited ("Bengbu Property") (note 1) with the amount of RMB1,843,000. Bengbu Xinao also sold materials to Enric Bengbu for a total consideration of RMB25,000. Enric Bengbu purchased gas from Bengbu Xinao Gas Development Company Limited ("Bengbu Gas Development"), the indirect non-wholly-owned subsidiary of the Company, for a total consideration of RMB73,000.

During the year, Huaian Xinao purchased materials from Enric Bengbu for a consideration of RMB107,000.

During the year, the loans advanced from Changzhou City Wujin Gas Company ("Changzhou Gas") and Kaifeng City Development Investment Company Limited ("Kaifeng Development"), the PRC JV partners of the Company's indirect non-wholly-owned subsidiaries Changzhou Xinao and Kaifeng Xinao Gas Company Limited ("Kaifeng Xinao") respectively, had been fully repaid by Changzhou Xinao and Kaifeng Xinao with the loan amounts of RMB17,000,000 and RMB8,000,000 respectively.

During the year, Changzhou Xinao and Kaifeng Xinao, the Company's indirect non-wholly-owned subsidiaries paid loan interest of RMB397,000 and RMB244,000 to Changzhou Gas and Kaifeng Development respectively. The loans advanced to the subsidiaries were actually the acquisition of liabilities from respective PRC JV partners when forming the new JVs.

During the year, Zhanjiang City Gas Company, the PRC JV partner of Zhanjiang Xinao Gas Company Limited ("Zhangjiang Xinao"), the indirect non-wholly-owned subsidiary of the company, leased a gas station and related facilities to Zhanjiang Xinao for a period of three months commencing in October 2004. A lease agreement was signed by both parties for a monthly rent of RMB150,000.

Note:

1. Langfang Xinao Property Management, XGCL, Xincheng Property, Shijiazhuang Enric, Xinao Machinery, Enric Bengbu, Xinao Group International and Bengbu Property are controlled by Mr. Wang, the Chairman of the Company.
2. All subsidiaries of the Company in the PRC, PRC JV partners and related parties mentioned above have names in Chinese only, and the English names used here are for reference only.

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

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

POST BALANCE SHEET EVENTS

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

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share options as set out in Directors' rights to acquire shares, the Company issued five-year convertible bonds in an aggregate principal amount of HK\$550,000,000 on 15 November 2004. The bonds are zero coupon bonds; the issue price is 100% whereas the redemption price is 106.43%, which means that the effective interest rate is 1.25% per annum. The bondholders have the option to require the Company to redeem the bonds 2.5 years after the issue date. If the bondholders do not exercise the option of redemption, then they have to hold the bonds to maturity or exercise the conversion right during the conversion period. Bondholders can exercise the conversion right between 15 December 2004 and 15 November 2009 and convert the bonds into ordinary shares of HK\$0.10 each of the Company, and the Company has the option to issue share or pay cash in lieu of shares to such bondholders. The conversion price for each ordinary share at the issue date of the bonds was HK\$5.4375, which is subject to adjustment for events, if any, which may have diluting effects after the issue. If all the bonds are converted into shares, 101,145,000 ordinary shares of the Company will be issued, equivalent to 11.66% of the total issued share capital of the Company as at 31 December 2004. No one exercised conversion right as of 31 December 2004.

Other than disclosed above, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2004.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the purchases attributable to the Group's largest supplier and the five largest suppliers were 12.0% and 35.8% respectively during the year. None of the Directors, their associates, or any shareholders (who to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers. The percentage of the turnover attributable to the Group's five largest customers is less than 30% during the year.

CORPORATE GOVERNANCE

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

It is part of our strategy to stay open and responsive to any queries that our shareholders and investors may have from time to time. Since listing, we have obtained numerous awards from the investment community regarding our financial and operation management practice. It is also our aim to continue to enhance our management quality.

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters. Members of the Audit Committee are Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau, who are all independent non-executive Directors. Mr. Xu Liang was a member of the Audit Committee in 2004 and ceased to act as a member on 31 March 2005. The Audit Committee has reviewed the unaudited interim accounts and the audited annual accounts for 2004. Two Audit Committee meetings were held during the financial year.

REMUNERATION COMMITTEE

The Company's Remuneration Committee was established on 31 December 2004 and is composed of one executive Director, namely, Mr. Yang Yu, and three independent non-executive Directors, namely, Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau. The Remuneration Committee's responsibilities includes the review of the Company's policy for remuneration of Directors and senior management and determination the remuneration packages of executive Directors and senior management including benefits in kind, pension rights and compensation payments.

ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDITORS

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

On behalf of the Board

WANG Yusuo

Chairman

Hong Kong, 20 April 2005



TO THE SHAREHOLDERS OF XINAO GAS HOLDINGS LIMITED

新奧燃氣控股有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 50 to 96 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 20 April 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	NOTES	2004 RMB'000	2003 RMB'000
Turnover	4	1,439,945	878,055
Cost of sales		(850,370)	(502,693)
Gross profit		589,575	375,362
Other operating income	5	47,596	30,734
Selling expenses		(29,488)	(21,524)
Administrative expenses		(230,567)	(137,704)
Other operating expenses		(18,519)	(14,239)
Profit from operations	6	358,597	232,629
Finance costs	8	(41,552)	(30,995)
Share of results of associates		(1,226)	(94)
Share of results of jointly controlled entities		(1,101)	(2,298)
Profit before taxation		314,718	199,242
Income tax expenses	9	(9,196)	(2,957)
Profit before minority interests		305,522	196,285
Minority interests		(53,265)	(13,195)
Profit for the year		252,257	183,090
Dividend	10	25,254	–
Earnings per share	11		
Basic		29.7 cents	24.8 cents
Diluted		29.1 cents	24.6 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2004

	NOTES	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	12	2,941,594	2,029,615
Intangible assets	13	94,699	78,329
Negative goodwill	14	(4,351)	(4,120)
Interests in associates	16	61,025	10,394
Interests in jointly controlled entities	17	170,499	22,105
Investments in securities	18	1,439	1,000
		3,264,905	2,137,323
Current assets			
Inventories	19	106,899	72,950
Trade and other receivables	20	380,995	269,216
Amounts due from customers for contract work	21	162,035	108,284
Amounts due from associates		15,361	3,180
Amounts due from jointly controlled entities		25,092	265
Amounts due from related companies	22	51,224	19,578
Bank balances and cash		911,537	487,129
		1,653,143	960,602
Current liabilities			
Trade and other payables	23	482,909	308,798
Amounts due to customers for contract work	21	86,437	120,194
Amounts due to jointly controlled entities		20,575	750
Amount due to an associate		13,474	–
Amounts due to related companies	24	8,745	60,332
Taxation payable		6,249	1,321
Bank and other loans - due within one year	26	643,441	541,390
		1,261,830	1,032,785
Net current assets (liabilities)		391,313	(72,183)
Total assets less current liabilities		3,656,218	2,065,140
Non-current liabilities			
Bank and other loans - due after one year	26	706,155	570,536
Convertible bonds	27	567,564	–
Deferred taxation	28	24,205	17,058
		1,297,924	587,594
		2,358,294	1,477,546
Capital and reserves			
Share capital	29	91,954	78,122
Reserves	31	1,820,384	1,059,977
		1,912,338	1,138,099
Minority interests		445,956	339,447
		2,358,294	1,477,546

The financial statements on pages 50 to 96 were approved and authorised for issue by the Board of Directors on 20 April 2005 and are signed on its behalf by:

Wang Yusuo
DIRECTOR

Yu Jianchao
DIRECTOR

BALANCE SHEET

At 31 December 2004

	NOTES	2004 RMB'000	2003 RMB'000
Non-current assets			
Interests in subsidiaries	15	1,984,032	1,280,912
Current assets			
Deposits and prepayments		–	63
Bank balances and cash		268,760	16,983
		268,760	17,046
Current liabilities			
Amounts due to subsidiaries	25	16,406	34,126
Bank and other loans - due within one year	26	289,380	82,680
		305,786	116,806
Net current liabilities		(37,026)	(99,760)
Total assets less current liabilities		1,947,006	1,181,152
Non-current liabilities			
Bank and other loans - due after one year	26	248,040	537,420
Convertible bonds	27	567,564	–
		815,604	537,420
Net assets		1,131,402	643,732
Capital and reserves			
Share capital	29	91,954	78,122
Reserves	31	1,039,448	565,610
		1,131,402	643,732

Wang Yusuo
DIRECTOR

Yu Jianchao
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	2004 RMB'000	2003 RMB'000
Total equity at 1 January	1,138,099	939,477
Issue of shares on placing	496,589	–
Share issue expenses on placing	(12,654)	–
Issue of shares on exercise of share options	20,378	–
Net surplus arising on valuation of land and buildings not recognised in the consolidated income statement	17,669	15,532
Profit for the year	252,257	183,090
Total equity at 31 December	1,912,338	1,138,099

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	NOTES	2004 RMB'000	2003 RMB'000
Operating activities			
Profit before taxation		314,718	199,242
Adjustments for:			
Share of results of associates		1,226	94
Share of results of jointly controlled entities		1,101	2,298
Loss on disposal of property, plant and equipment		1,105	3,097
Depreciation of property, plant and equipment		77,434	52,371
Allowance for bad and doubtful debts		1,221	918
Allowance for inventories		6,740	1,260
Amortisation of intangible assets		4,903	3,706
Gain on disposal of a subsidiary		–	(718)
Release of negative goodwill		(251)	(226)
Interest income		(1,298)	(3,093)
Interest expenses		41,552	24,034
Operating cash flows before movements in working capital		448,451	282,983
Increase in inventories		(39,541)	(12,371)
Increase in trade and other receivables		(107,619)	(102,479)
Increase in amounts due from customers for contract work		(53,751)	(58,401)
Increase in amounts due from associates		(12,181)	(3,180)
Increase in amounts due from jointly controlled entities		(24,827)	(265)
Increase in amounts due from related companies		(31,646)	(5,088)
Increase in trade and other payables		170,548	43,354
(Decrease) increase in amounts due to customers for contract work		(33,757)	74,558
Increase in amounts due to jointly controlled entities		19,825	750
Increase in amount due to an associate		13,474	–
Decrease in amounts due to related companies		(2,361)	(13,705)
Cash generated from operating activities		346,615	206,156
Interest received		1,298	3,093
Interest paid		(48,911)	(24,034)
People's Republic of China ("PRC") enterprise income tax paid		(4,268)	(10,390)
Net cash from operating activities		294,734	174,825
Investing activities			
Purchase of property, plant and equipment		(953,908)	(692,816)
Acquisition of subsidiaries	32	(1,471)	(45,140)
Investments in jointly controlled entities		(149,495)	(21,903)
Acquisition of associates		(51,857)	(10,488)
Acquisition of exclusive rights of operation		(2,800)	(8,000)
Acquisition of additional interests in subsidiaries		(4,959)	(4,476)
Investments in securities		(439)	(1,000)
Proceeds from disposal of property, plant and equipment		1,344	304
Disposal of a subsidiary	33	–	3,124
Net cash used in investing activities		(1,163,585)	(780,395)

	2004 RMB'000	2003 RMB'000
Financing activities		
Proceeds from convertible bonds issued	583,000	–
Bonds issue expenses	(16,743)	–
Proceeds from shares issued	516,967	–
Shares issue expenses	(12,654)	–
Contribution from minority shareholders	38,828	50,821
Dividends paid to minority shareholders	(3,575)	(10,331)
Loans from minority shareholders	–	8,000
Repayments of advances from minority shareholders	(50,234)	(75,053)
Repayment of loans from minority shareholders	(25,000)	(40,974)
New bank loans raised	861,754	679,942
Repayment of bank loans	(599,084)	(151,242)
Net cash from financing activities	1,293,259	461,163
Net increase (decrease) in cash and cash equivalents	424,408	(144,407)
Cash and cash equivalents at beginning of the year	487,129	631,536
Cash and cash equivalents at end of the year	911,537	487,129
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	911,537	487,129

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1. GENERAL

The Company is an exempt company incorporated in the Cayman Islands under the Companies Law and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets and liabilities of a subsidiary, an associate or a jointly controlled entity at the effective date of acquisition.

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

Goodwill arising on acquisition on or after 1 January 2001 is capitalised and amortised on a straight line basis over its economic useful life which is not more than 20 years. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented as a separate intangible asset.

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

Negative goodwill

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Negative goodwill *(continued)*

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

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

Revenue recognition

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

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

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

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

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

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 sales 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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Construction in progress**

Construction in progress represents assets under construction and is stated at cost. Cost comprises directly attributable costs of acquisition or construction which include capitalised borrowing costs. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

Exclusive rights of operation

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

Investments in subsidiaries

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

Interests in associates

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

Jointly controlled entities

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

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

Investments in securities

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

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

Borrowing costs

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

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

Impairment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Convertible bonds

Convertible bonds are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis and charged to the income statement using effective interest method over the period of the bond and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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 useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Government grants

Subsidies from the relevant PRC government authorities, in the form of refund of income tax, value added tax and various taxes, as an incentive for the investments in various cities in the PRC are recognised when relevant approval has been obtained.

Subsidies from the relevant PRC government authorities for the coal gas operation are recognised when relevant approval has been obtained.

Taxation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

Foreign currencies

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

Retirement benefit scheme contribution

The retirement benefit scheme contribution charged to the income statement represents the Group's contribution payable to the retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC.

4. TURNOVER

	2004 RMB'000	2003 RMB'000
Turnover comprises the following:		
Gas connection fees	822,697	516,468
Sales of piped gas	429,779	185,720
Distributions of bottled liquefied petroleum gas	149,185	161,402
Sales of gas appliances	38,284	14,465
	1,439,945	878,055

5. OTHER OPERATING INCOME

	2004 RMB'000	2003 RMB'000
Other operating income comprises the following:		
Compensation received (note a)	16,702	8,000
Incentive subsidies (note b)	8,350	7,356
Interest income	1,298	3,093
Income from rented premises under operating leases	3,177	2,011
Repairs and maintenance income	1,858	1,267
Management fee income	264	264
Pipeline transmission income	1,440	1,168
Release of negative goodwill	251	226
Gain on disposal of a subsidiary	–	718
Miscellaneous sales	7,120	14
Others	7,136	6,617
	47,596	30,734

5. OTHER OPERATING INCOME (continued)

Notes:

- (a) Pursuant to a notice of compensation issued by the relevant government authority in the PRC on 5 January 2004, 長沙新奧燃氣有限公司 ("Changsha Xiniao"), a subsidiary of the Company, is entitled to receive compensation annually from the government authority to subsidise its coal gas operation with effect from September 2003. During the year, RMB16,702,000 was recognised as income.
- In 2003, under a memorandum signed between the joint venture partners of 蚌埠新奧燃氣有限公司 ("Bengbu Xiniao"), a subsidiary of the Company, Bengbu Xiniao is entitled to receive compensation from the PRC minority shareholder for the operating loss incurred in running the liquefied petroleum gas business due to the delay in obtaining the approval of the increment in selling price from the local government authority. During the year ended 31 December 2003, compensation amounting to RMB8,000,000 was received from the PRC minority shareholder.
- (b) Included in incentive subsidies is a refund of part of the income tax and value added tax paid from the relevant PRC government authorities as an incentive for the investments in various cities in the PRC, amounting to RMB6,538,000 (2003: RMB4,585,000). The application was approved by the relevant government authorities. The remaining represented refunds of various taxes as incentives by the government authorities in various cities of the PRC. All incentives were recorded in the year when the approval was obtained.

6. PROFIT FROM OPERATIONS

	2004 RMB'000	2003 RMB'000
Profit from operations has been arrived at after charging:		
Amortisation of intangible assets included in other operating expenses	4,903	3,706
Auditors' remuneration	2,879	2,317
Depreciation and amortisation of property, plant and equipment	77,434	52,371
Loss on disposal of property, plant and equipment	1,105	3,097
Minimum lease payments under operating leases in respect of land and buildings	6,442	3,769
Allowance for bad and doubtful debts	1,221	918
Allowance for inventories	6,740	1,260
Research and development expenses	4,163	2,889
Staff costs	155,896	87,506
Less: Amount capitalised under construction in progress	(21,066)	(5,427)
	134,830	82,079

7. REMUNERATION OF DIRECTORS AND EMPLOYEES**(a) Directors' emoluments**

Directors' emoluments paid or payable to the Company's directors for the year were as follows:

Name of Directors	Retirement				Retirement			
	Fee	Basic salaries and allowance	benefits scheme contributions	Total emoluments	Fee	Basic salaries and allowance	benefits scheme contributions	Total emoluments
	2004	2004	2004	2004	2003	2003	2003	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wang Yusuo	–	1,378	–	1,378	–	1,378	–	1,378
Yang Yu	–	848	–	848	–	848	–	848
Chen Jiacheng	–	94	19	113	–	53	2	55
Zhao Jinfeng	–	424	19	443	–	424	6	430
Qiao Limin	–	424	–	424	–	424	–	424
Jin Yongsheng	–	530	19	549	–	530	6	536
Yu Jianchao	–	424	–	424	–	424	–	424
Cheung Yip Sang	–	424	19	443	–	424	1	425
Cheng Chak Ngok	–	551	13	564	–	551	13	564
Zhao Baoju	64	–	–	64	62	–	–	62
Wang Guangtian	64	–	–	64	51	–	–	51
Xu Liang	64	–	–	64	128	–	–	128
Yien Yu Yu, Catherine	32	–	–	32	–	–	–	–
	224	5,097	89	5,410	241	5,056	28	5,325

The amounts disclosed above include directors' fees of RMB160,000 (2003: RMB179,000) payable to independent non-executive directors. None of the directors waived any emoluments during the year.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, four (2003: four) were directors of the Company whose emoluments are disclosed in note (a) above. The emoluments of the remaining one (2003: one) are as follows:

	2004 RMB'000	2003 RMB'000
Salaries and other benefits	434	434
Retirement benefits scheme contributions	13	13
	447	447

8. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on:		
Bank and other loans wholly repayable within five years	40,245	24,034
Bank loans not wholly repayable within five years	8,666	–
Convertible bonds	1,307	–
	50,218	24,034
Less: Amount capitalised	(8,666)	–
	41,552	24,034
Bank charges	–	6,961
	41,552	30,995

9. INCOME TAX EXPENSES

	2004 RMB'000	2003 RMB'000
Current tax	8,510	4,633
Under (over) provision in prior years	686	(1,676)
	9,196	2,957

The charge represents PRC enterprise income tax 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.

9. INCOME TAX EXPENSES (continued)

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

	2004 RMB'000	2003 RMB'000
Profit before taxation	314,718	199,242
Tax at the domestic income tax rate of 33%	103,857	65,750
Tax effect of expenses not deductible for tax purpose	21,314	25,707
Tax effect of income not taxable for tax purpose	(6,122)	(6,312)
Tax effect of tax losses not recognised	16,125	10,477
Utilisation of tax losses previously not recognised	(640)	(209)
Under (over) provision in respect of prior year	686	(1,676)
Effect of tax concession granted to PRC subsidiaries	(111,543)	(82,018)
Effect of different tax rates of subsidiaries	(14,481)	(8,762)
Tax charge for the year	9,196	2,957

10. DIVIDEND

	2004 RMB'000	2003 RMB'000
Final, proposed of HKD2.71 cents (equivalent to approximately RMB2.87 cents) per share (2003: Nil)	25,254	–

The final dividend of HKD2.71 cents (equivalent to approximately RMB2.87 cents) per share on 879,125,000 shares has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

11. EARNINGS PER SHARE

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

	2004 RMB'000	2003 RMB'000
Earnings for the purposes of basic earnings per share	252,257	183,090
Effect of dilutive potential ordinary shares: Interest on convertible bonds	1,307	–
Earnings for the purposes of diluted earnings per share	253,564	183,090

	2004 Number of shares	2003 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	848,096,000	737,000,000
Effect of dilutive potential ordinary shares: Share options	10,961,000	8,075,000
Convertible bonds	12,989,000	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	872,046,000	745,075,000

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	Construction in progress RMB'000	Total RMB'000
THE GROUP							
COST/VALUATION							
At 1 January 2004	445,301	1,043,182	98,064	60,331	23,592	444,862	2,115,332
Acquisition of subsidiaries	2,505	8,864	66	268	–	3,508	15,211
Additions	40,622	56,208	34,313	19,903	10,298	788,847	950,191
Reclassification	80,783	390,228	15,297	432	4,765	(491,505)	–
Disposals	(195)	(273)	(2,703)	(5,172)	(408)	–	(8,751)
Surplus on valuation	10,263	–	–	–	–	–	10,263
At 31 December 2004	579,279	1,498,209	145,037	75,762	38,247	745,712	3,082,246
Comprising:							
At cost	–	1,498,209	145,037	75,762	38,247	745,712	2,502,967
At valuation	579,279	–	–	–	–	–	579,279
	579,279	1,498,209	145,037	75,762	38,247	745,712	3,082,246
DEPRECIATION AND AMORTISATION							
At 1 January 2004	–	56,071	9,075	15,954	4,617	–	85,717
Provided for the year	16,197	37,486	9,257	10,941	3,553	–	77,434
Eliminated on disposals	–	(65)	(1,678)	(4,383)	(176)	–	(6,302)
Eliminated on valuation	(16,197)	–	–	–	–	–	(16,197)
At 31 December 2004	–	93,492	16,654	22,512	7,994	–	140,652
NET BOOK VALUES							
At 31 December 2004	579,279	1,404,717	128,383	53,250	30,253	745,712	2,941,594
At 31 December 2003	445,301	987,111	88,989	44,377	18,975	444,862	2,029,615

The net book values of properties shown above comprises:

	2004 RMB'000	2003 RMB'000
Land and buildings in Hong Kong under long leases	31,000	22,800
Land and buildings in PRC under medium term land use rights	548,279	422,501
	579,279	445,301

At the balance sheet date, the Group is in the process of obtaining land use right certificates for its land and buildings in PRC amounting to approximately RMB86,678,000 (2003: RMB145,122,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the land use right certificates for its land and buildings in the PRC.

12. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group revalued its land and buildings as at 31 December 2004, resulting in a revaluation surplus of RMB26,460,000 (2003: RMB27,588,000) which has been credited to the revaluation reserve. The valuation was carried out by Chesterton Petty Limited, a firm of professionally qualified valuers, on an open market value basis. At 31 December 2004, the carrying value of these revalued land and buildings amounted to approximately RMB579,279,000 (2003: RMB445,301,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation of approximately RMB489,895,000 (2003: RMB381,459,000).

Included in construction in progress is interest capitalised of approximately RMB8,666,000 (2003: Nil).

13. INTANGIBLE ASSETS

	THE GROUP		
	Goodwill	Exclusive rights	Total
	RMB'000	of operation	RMB'000
		RMB'000	
GROSS AMOUNT			
At 1 January 2004	70,351	13,000	83,351
Arising on:			
– acquisition of a subsidiary (note 32)	98	–	98
– acquisition of business (note a and note 34)	600	–	600
– adjustments to fair values of assets acquired in prior periods (note b)	17,775	–	17,775
– acquisition (note c)	–	2,800	2,800
At 31 December 2004	88,824	15,800	104,624
AMORTISATION			
At 1 January 2004	4,833	189	5,022
Charge for the year	4,439	464	4,903
At 31 December 2004	9,272	653	9,925
CARRYING VALUES			
At 31 December 2004	79,552	15,147	94,699
At 31 December 2003	65,518	12,811	78,329

Notes:

- The Group entered into a joint venture contract with certain independent third party in the PRC. Under the terms of contracts, the Group agreed to inject capital into the subsidiary in cash and the PRC joint venture partner agreed to inject capital into the subsidiary in the form of cash and non-cash assets. Upon completion of the capital injection by both parties, the Group recognised an amount of RMB600,000, representing the excess of the Group's initial capital contribution in the subsidiary over the Group's interest in the fair value of the net assets of the subsidiary. Goodwill is amortised using straight line method over 20 years.
- During the year, adjustments were made to the carrying amount of the identifiable assets and liabilities of Jinhua Xinao Gas Company Limited ("Jinhua Xinao") acquired in December 2003. A valuation report received in the current period indicated that the fair value of the property, plant and equipment of Jinhua Xinao at the date of acquisition was RMB14,059,000 less than the original estimate, and the remaining amount of RMB3,716,000 represented the adjustments of fair value for the property, plant and equipment of certain subsidiaries acquired in 2003. Consequently, the goodwill arising on acquisition should have been increased by an equivalent amount. If the adjusted fair value for property, plant and equipment had been incorporated from the date of acquisition, the profit for 2003 would have been decreased by an increase in the amortisation charge in respect of goodwill of RMB59,000. These effects have been included in the income statement for the current period.
- The amount arose from the acquisition of exclusive rights to operate in gas pipeline infrastructure and provision of piped gas in Wenzhou City in the PRC, for a period of 30 years. The exclusive rights of operation is amortised on a straight line method over the relevant operation period.
- The amortisation period adopted for goodwill is 20 years.

14. NEGATIVE GOODWILL

	THE GROUP RMB'000
GROSS AMOUNT	
At 1 January 2004	4,538
Arising on acquisition of additional interests in subsidiaries during the year	482
At 31 December 2004	5,020
RELEASED TO INCOME	
At 1 January 2004	418
Released in the year	251
At 31 December 2004	669
CARRYING AMOUNT	
At 31 December 2004	4,351
At 31 December 2003	4,120

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

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	268,868	20,564
Amounts due from subsidiaries	1,715,164	1,260,348
	1,984,032	1,280,912

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

Particulars of the principal subsidiaries are set out in note 42.

16. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Share of net assets	54,228	3,235
Goodwill on acquisition of an associate	6,797	7,159
	61,025	10,394

16. INTERESTS IN ASSOCIATES (continued)

Details of the Group's associates as at 31 December 2004 are as follows:

Name of company	Form of business structure	Place of establishment/operation	Proportion of nominal value of registered capital held by the Group	Principal activities
鹽城常建燃氣有限公司 ("Yancheng Changjian Gas Company Limited")	Incorporated	The PRC	45%	Sales of piped gas
東莞新奧莞樟燃氣有限公司 ("Dongguan Xinao Guanzhang Gas Company Limited")	Incorporated	The PRC	47%	Investment in gas pipeline infrastructure and sales of piped gas
北海新奧燃氣有限公司 ("Beihai Xinao Gas Company Limited")	Incorporated	The PRC	68%	Production and sales of liquefied natural gas and compressed natural gas ("CNG"); design and installation of piped gas facilities; production, sales and repair of gas equipment and appliances

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

The goodwill on acquisition of an associate of RMB7,250,000 arose on the acquisition of the associate in 2003. Amortisation charged in the current year amounting to approximately RMB362,000 (2003: RMB91,000) has been included in the amount reported as share of results of associates in the consolidated income statement.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Share of net assets	170,499	22,105

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Details of the Group's jointly controlled entities as at 31 December 2004 are as follows:

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group	Principal activities
鹽城新奧壓縮天然氣有限公司 ("Yancheng Xinao Compressed Natural Gas Company Limited)	Incorporated	The PRC	50%	Production and distribution of compressed natural gas
東莞新奧燃氣有限公司 ("Dongguan Xinao Gas Company Limited")	Incorporated	The PRC	49%	Investment in gas pipeline infrastructure and sales of piped gas and liquefied petroleum gas
湖州新奧燃氣有限公司 ("Huzhou Xinao Gas Company Limited")	Incorporated	The PRC	50%	Investment in gas pipeline infrastructure, sale of gas appliances and equipment, provision of repair and maintenance service and operation of natural gas station
鹿泉富新燃氣有限公司 ("Luquan Fuxin Gas Company Limited ")	Incorporated	The PRC	49%	Investment in gas pipeline infrastructure and sales of piped gas
煙台新奧燃氣發展有限公司 ("Yantai Xinao Gas Development Company Limited ")	Incorporated	The PRC	50%	Investment in gas pipeline infrastructure and sales of piped gas

18. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Investment securities		
Insurance fund	1,000	1,000
Unlisted equity securities	439	—
	1,439	1,000

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

19. INVENTORIES

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Construction materials	58,468	43,421
Gas appliances	23,503	17,449
Piped gas	8,109	2,168
Bottled liquefied petroleum gas	7,997	8,022
Spare parts and consumable	8,822	1,890
	106,899	72,950

All inventories are carried at cost. For 2003, gas appliances of approximately RMB5,825,000 were carried at net realisable value.

The cost of inventories recognised as an expense during the year was RMB195,585,000 (2003: RMB100,539,000).

20. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2004 RMB'000	2003 RMB'000
The following is an aged analysis of trade receivable:		
0 – 3 months	170,664	129,244
4 – 6 months	37,398	37,125
7 – 9 months	28,906	11,528
10 – 12 months	9,370	2,813
More than 1 year	–	480
Trade receivable	246,338	181,190
Prepayments, deposits and other receivables	134,657	88,026
	380,995	269,216

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

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Contract costs incurred plus recognised profits	324,011	185,958
Less: Progress billings	(248,413)	(197,868)
	75,598	(11,910)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	162,035	108,284
Amounts due to customers for contract work	(86,437)	(120,194)
	75,598	(11,910)

22. AMOUNTS DUE FROM RELATED COMPANIES

THE GROUP

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

Name of company	Balance at 31.12.2004 RMB'000	Balance at 1.1.2004 RMB'000	Maximum amount outstanding during the year RMB'000
新奧集團石家莊化工機械股份有限公司 ("Xiniao Group Shijiazhuang Chemical and Machinery Company Limited")	16,147	9,973	16,147
廊坊新城房地產開發有限公司 ("Langfang Xincheng Property Development Company Limited")	14,308	1,320	14,308
廊坊新奧物業管理有限公司 ("Langfang Xiniao Property Management Company Limited")	7,127	1,954	7,127
安瑞科(蚌埠)壓縮機有限公司 ("Enric (Bengbu) Compressor Company Limited")	4,744	1,002	5,997
湛江市燃氣集團公司*	2,392	—	2,494
("Zhanjiang City Gas Group Company")*			
石家莊安瑞科氣體機械有限公司 ("Shijiazhuang Enric Gas Equipment Company Limited")	2,300	—	2,300
萊陽市煤氣公司*	1,535	1,366	1,535
("Laiyang City Coal Gas Company")*			
新鄉市燃氣總公司*	704	—	704
("Xinxiang City Gas Corporation")*			
廊坊新奧酒店管理有限公司 ("Langfang Xiniao Hotel Management Company Limited")	649	89	649
連雲港科普置業公司*	550	550	550
("Lianyungang Kepu Property Company")*			
新奧集團股份有限公司 ("Xiniao Group Company Limited")	449	—	449
廊坊新奧置業有限公司 ("Langfang Xiniao Property Company Limited")	160	—	160
蘭溪東升能源有限公司*	88	49	88
("Lanxi Dongsheng Energy Company Limited")*			
北京市昌平區市政經濟發展總公司*	43	43	43
("Beijing City Changping District Urban Economic Development Corporation")*			
新奧集團國際經濟發展有限公司 ("Xiniao Group International Economic Development Company Limited")	28	—	70
常州市武進燃氣總公司*	—	1,983	1,983
("Changzhou City Wujin Gas Corporation")*			
諸城市燃氣熱力總公司*	—	721	721
("Zhucheng City Gas and Heating Corporation")*			
連雲港市城市建設投資有限責任公司*	—	275	275
("Lianyungang City Urban Construction Investment Company Limited")*			
開封市發展投資有限公司*	—	200	200
("Kaifeng City Development Investment Company Limited")*			
海寧市萬通燃氣有限責任公司*	—	34	34
("Haining City Wantong Gas Company Limited")*			
淮安市燃氣總公司*	—	19	19
("Huai'an City Gas Corporation")*			
	51,224	19,578	

* Minority shareholders of subsidiaries

22. AMOUNTS DUE FROM RELATED COMPANIES (continued)

All the above related companies are controlled by Mr. Wang Yusuo ("Mr. Wang") who is the major shareholder and director of the Company, except the minority shareholders of subsidiaries as indicated above.

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

23. TRADE AND OTHER PAYABLES

	THE GROUP	
	2004 RMB'000	2003 RMB'000
The following is an aged analysis of trade payable:		
0 – 3 months	161,640	179,726
4 – 6 months	33,759	14,889
7 – 9 months	20,175	6,882
10 – 12 months	8,731	5,582
More than 1 year	28,155	22,714
Trade payable	252,460	229,793
Advances received from customers	108,925	11,727
Accrued charges and other payables	121,524	67,278
	482,909	308,798

24. AMOUNTS DUE TO RELATED COMPANIES

THE GROUP

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

Name of company	2004 RMB'000	2003 RMB'000
株洲市城市建設投資經營有限公司*	4,182	30,033
(“Zhuzhou City Urban Construction Investment and Operation Company Limited”)*		
Changzhou City Wujin Gas Corporation	1,461	3,663
通遼市日新天然氣有限責任公司*	970	–
(“Tongliao City Rixin Natural Gas Company Limited”)*		
Enric (Bengbu) Compressor Company Limited	809	25
Zhanjiang City Gas Group Company*	752	–
北京新奧廣廈房地產開發有限公司	290	290
(“Beijing Xinao Guangxia Property Development Company Limited”)		
桂林旅遊股份有限公司*	201	–
(“Guilin Travel Company Limited”)*		
海寧市民泰煤氣有限責任公司*	63	51
(“Haining City Mintai Coal Gas Company Limited”)*	9	–
Langfang Xincheng Property Development Company Limited		
蚌埠新奧置業有限公司	8	–
(“Bengbu Xinao Property Company Limited”)		
湘潭市煤氣公司*		
(“Xiangtan City Coal Gas Company”)*	–	12,465
長沙市燃氣總公司*	–	10,306
(“Changsha City Gas Corporation”)*		
Xinao Group Shijiazhuang Chemical and Machinery Company Limited	–	2,209
Xinao Group International Economic Development Company Limited	–	945
Huaian City Gas Corporation*	–	271
Haining City Wantong Gas Company Limited*	–	66
Xinao Group Company Limited	–	8
	8,745	60,332

* Minority shareholders of subsidiaries

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

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

25. AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

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

26. BANK AND OTHER LOANS

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Secured bank loans	45,734	33,173	–	–
Unsecured bank loans	1,303,353	1,053,244	537,420	620,100
	1,349,087	1,086,417	537,420	620,100
Unsecured loans from minority shareholders	509	25,509	–	–
	1,349,596	1,111,926	537,420	620,100
The bank and other loans are repayable:				
Within one year	643,441	541,390	289,380	82,680
Between one to two years	279,844	322,022	248,040	289,380
Between two to five years	186,311	248,514	–	248,040
More than five years	240,000	–	–	–
	1,349,596	1,111,926	537,420	620,100
Less: Amount due within one year shown under current liabilities	(643,441)	(541,390)	(289,380)	(82,680)
Amount due after one year	706,155	570,536	248,040	537,420

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

27. CONVERTIBLE BONDS

On 15 November 2004, the Company issued zero coupon convertible bonds ("CB") with a principal amount of HK\$550,000,000 (equivalent to approximately RMB583,000,000) net of issue costs of HK\$15,795,000 (equivalent to approximately RMB16,743,000). Unless previously redeemed, converted or purchased and cancelled, the CB will be redeemed at 106.43% of the principal amount on 15 November 2009. The CB can be converted into the Company's ordinary shares of HK\$0.1 each at the conversion price of HK\$5.4375 during the period from 15 December 2004 to 15 November 2009, and will be subject to adjustment in the event of further issues of shares or other dilution events. The CB are listed on the Stock Exchange (Stock Code: 2598). Details of the issue of the CB were disclosed in the Company's announcements dated 26 October 2004 and 29 November 2004.

28. DEFERRED TAXATION

At the balance sheet date, the Group had deferred tax liabilities amounting to approximately RMB24,205,000 (2003: RMB17,058,000) arising on valuation of properties. The movements of deferred taxation during the current and prior reporting periods are as follows:

	2004 RMB'000	2003 RMB'000
At beginning of the year	17,058	10,618
Charge to equity during the year	7,147	6,613
Disposal of a subsidiary	–	(48)
Reversal on disposals of land and buildings	–	(125)
At end of the year	24,205	17,058

At the balance sheet date, the Group has unused tax losses of approximately RMB80,587,000 (2003: RMB33,662,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB1,823,000 (2003: RMB1,914,000) and RMB29,901,000 (2003: RMB31,748,000) that will expire in 2007 and 2008 respectively. Other losses will expire in 2009.

29. SHARE CAPITAL

	2004 Number of shares	2003 Number of shares	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At beginning and end of the year	3,000,000,000	3,000,000,000	300,000	300,000
Issued and fully paid:				
At beginning of the year	737,000,000	737,000,000	73,700	73,700
Issue of shares on placing	122,000,000	–	12,200	–
Issue of shares on exercise of share options	8,487,500	–	849	–
At end of the year	867,487,500	737,000,000	86,749	73,700

	RMB'000	RMB'000
Presented in financial statements as:		
At beginning of the year	78,122	78,122
Issue of shares on placing	12,932	–
Issue of shares on exercise of share options	900	–
At end of the year	91,954	78,122

29. SHARE CAPITAL *(continued)*

On 23 February 2004, 122,000,000 shares of HK\$0.10 each were issued at HK\$3.84 per share by way of placing. These shares rank pari passu with the existing shares in all respects. The net proceeds from shares issued were used as general working capital and expansion of the Group.

On 2 March 2004, 8,100,000 shares of HK\$0.10 each were issued at HK\$2.265 per share by way of exercise of share option. These shares rank pari passu with the existing shares in all respects. The net proceeds from shares issued were used as general working capital of the Group.

On 20 December 2004, 387,500 shares of HK\$0.10 each were issued at HK\$2.265 per share by way of exercise of share option. These shares rank pari passu with the existing shares in all respects. The net proceeds from shares issued were used as general working capital of the Group.

30. SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “2001 Scheme”) pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2001. In connection with the listing of shares on the Main Board of the Stock Exchange, the Company has adopted another share option scheme (the “2002 Scheme”) and terminated the 2001 Scheme pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002.

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

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

30. SHARE OPTION SCHEME (continued)

The outstanding share options under 2001 Scheme were cancelled in 2003. The following tables disclose details of the Company's share options held by the employees (including directors) and movements in such holdings under the 2002 Scheme during the year:

	Date of grant	Exercise period	Exercise price	Number of options outstanding at 1.1.2004	Exercised during the year	Number of options outstanding at 31.12.2004
Directors	14.2.2003	15.8.2003 – 14.2.2013	HK\$2.265	19,250,000	(1,962,500)	17,287,500
Employees	14.2.2003	15.8.2003 – 14.2.2013	HK\$2.265	13,050,000	(6,525,000)	6,525,000
				32,300,000	(8,487,500)	23,812,500

	Date of grant	Exercise period	Exercise price	Number of options outstanding at 1.1.2003	Granted during the year	Number of options outstanding at 31.12.2003
Directors	14.2.2003	15.8.2003 – 14.2.2013	HK\$2.265	–	19,250,000	19,250,000
Employees	14.2.2003	15.8.2003 – 14.2.2013	HK\$2.265	–	13,050,000	13,050,000
				–	32,300,000	32,300,000

8,100,000 shares and 387,500 shares were issued under the Company's share option scheme on 2 March 2004 and on 20 December 2004 respectively. The fair value of the Company's share at the dates of issue for the exercise of share option on 2 March 2004 and 20 December 2004 are HK\$4.01 and HK\$3.95 per share respectively.

At 31 December 2004, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 23,812,500 (2003: 32,300,000) representing 2.74% (2003: 4.4%) of the shares of the Company in issue as at that date.

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

31. RESERVES

THE GROUP

	Share premium RMB'000	Special reserve RMB'000	Goodwill reserve RMB'000	Statutory reserves RMB'000	Revaluation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2003	579,828	1,167	5,590	–	25,078	249,692	861,355
Surplus arising on valuation of land and buildings	–	–	–	–	27,588	–	27,588
Tax effect on valuation surplus	–	–	–	–	(6,613)	–	(6,613)
Share of valuation surplus by minority shareholders (net of deferred tax)	–	–	–	–	(5,443)	–	(5,443)
Eliminated on disposal of a subsidiary	–	–	–	–	(181)	181	–
Eliminated on disposals of land and buildings	–	–	–	–	(375)	375	–
Reversal of tax effect on valuation surplus upon disposal of a subsidiary	–	–	–	–	44	(44)	–
Reversal of tax effect on valuation surplus upon disposal of land and buildings	–	–	–	–	112	(112)	–
Profit for the year	–	–	–	–	–	183,090	183,090
Transfer	–	–	–	33,430	–	(33,430)	–
At 31 December 2003 and 1 January 2004	579,828	1,167	5,590	33,430	40,210	399,752	1,059,977
Surplus arising on valuation of land and buildings	–	–	–	–	26,460	–	26,460
Tax effect on valuation surplus	–	–	–	–	(7,147)	–	(7,147)
Share of valuation surplus by minority shareholders (net of deferred tax)	–	–	–	–	(1,644)	–	(1,644)
Arising on shares issued on placing	483,657	–	–	–	–	–	483,657
Arising on shares issued on exercise of share options	19,478	–	–	–	–	–	19,478
Share issue expenses	(12,654)	–	–	–	–	–	(12,654)
Profit for the year	–	–	–	–	–	252,257	252,257
Transfer	–	–	–	10,920	–	(10,920)	–
At 31 December 2004	1,070,309	1,167	5,590	44,350	57,879	641,089	1,820,384

31. RESERVES (continued)

THE GROUP (continued)

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

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

THE COMPANY

	Share premium RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2003	579,828	(2,032)	577,796
Loss for the year	–	(12,186)	(12,186)
At 31 December 2003 and 1 January 2004	579,828	(14,218)	565,610
Arising on shares issued on placing	483,657	–	483,657
Arising on shares issued on exercise of share options	19,478	–	19,478
Share issue expenses	(12,654)	–	(12,654)
Loss for the year	–	(16,643)	(16,643)
At 31 December 2004	1,070,309	(30,861)	1,039,448

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 approximately RMB1,039,448,000 (2003: RMB565,610,000).

32. ACQUISITION OF SUBSIDIARIES

During the years ended 31 December 2004 and 2003, the Group acquired the following companies, particulars of which are as follows:

Name of subsidiary	Acquired company	Equity interest acquired	Consideration
Year ended 31 December 2004			
新奧(中國)燃氣投資有限公司 Xinao (China) Gas Investment Company Limited	汕頭新奧燃氣有限公司 Shantou Xinao Gas Company Limited	51%	RMB10,000,000
Year ended 31 December 2003			
Xinao Jiangsu Investment Limited	連雲港新奧燃氣有限公司 Lianyungang Xinao Gas Company Limited	70%	RMB50,000,000 (note a)
	連雲港市宏大燃氣設備安裝工程有限公司 Lianyungang City Hongda Gas Equipment Engineering Company Limited	62%	

- (a) The consideration of RMB50,000,000 was paid for both Lianyungang Xinao Gas Company Limited and Lianyungang City Hongda Gas Equipment Engineering Company Limited.

32. ACQUISITION OF SUBSIDIARIES (continued)

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

	2004 RMB'000	2003 RMB'000
Net assets acquired		
Property, plant and equipment	15,211	72,415
Inventories	592	1,317
Trade and other receivables	5,381	2,462
Bank balances and cash	8,529	4,860
Trade and other payables	(2,963)	(5,211)
Bank and other loans	–	(30,000)
Minority interests	(16,848)	(15,404)
	9,902	30,439
Goodwill	98	19,561
Total consideration	10,000	50,000
Satisfied by		
Cash consideration	10,000	50,000
Outflow of cash and cash equivalents arising on acquisition		
Cash consideration	10,000	50,000
Bank balances and cash acquired	(8,529)	(4,860)
Net outflow of cash and cash equivalents in respect of purchase of subsidiaries	1,471	45,140

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

	RMB'000	RMB'000
Results		
Contribution to the Group's turnover	2,650	5,295
Contribution to the Group's profit (loss) for the year	211	(831)

33. DISPOSAL OF A SUBSIDIARY

In 2003, the Group disposed of a subsidiary, 安吉新奥燃气有限公司 (“Anji Xinao Gas Company Limited”). The net assets of Anji Xinao Gas Company Limited at the date of disposal were as follows:

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

The subsidiary disposed of in 2003 contributed approximately RMB548,000 to the Group's turnover and RMB492,000 to the Group's profit from operations.

34. MAJOR NON-CASH TRANSACTIONS

During the year, the Group established certain subsidiaries in the PRC. Apart from the cash contributions of RMB19,864,000 (2003: RMB50,821,000) from the minority shareholders, the minority shareholders also contributed the capital in the form of non-cash assets.

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

	2004 RMB'000	2003 RMB'000
Non-cash assets		
Property, plant and equipment	5,392	390,244
Inventories	556	13,791
Trade and other receivables	–	67,676
Trade and other payables	(600)	(79,489)
Amounts due to related companies	(1,008)	(131,520)
Bank and other loans	–	(118,772)
	4,340	141,930
Goodwill recognised (note 13)	600	32,666
Negative goodwill recognised (note 14)	–	(1,261)
	4,940	173,335

35. CAPITAL COMMITMENTS

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
– contracted but not provided for	22,673	25,561
– authorised but not contracted for	14,200	14,200
	36,873	39,761

36. 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:

	2004 RMB'000	2003 RMB'000
Within one year	3,117	2,762
In the second to fifth year inclusive	4,089	4,290
Over five years	415	440
	7,621	7,492

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

The Group as lessor

Certain of the Group's properties with a carrying amount of RMB51,859,000 (2003: RMB28,279,000) are held for rental purposes. The depreciation charge of these properties amounted to RMB3,216,000 (2003: RMB1,590,000) for the year. The properties are expected to generate rental yields of 6.2% 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:

	2004 RMB'000	2003 RMB'000
Within one year	1,026	2,221
In the second to fifth year inclusive	2,345	117
Over five years	120	–
	3,491	2,338

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

37. PLEDGE OF ASSETS

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

	2004 RMB'000	2003 RMB'000
Carrying amount of Property, plant and equipment	116,168	79,972

38. RELATED PARTY TRANSACTIONS

Nature of transaction	Name of related party	2004 RMB'000	2003 RMB'000
Provision of gas connection service (Note i)	Enric (Bengbu) Compressor Company Limited	–	315
	Shijiazhuang Enric Gas Equipment Company Limited	3,600	–
	Bengbu Xinao Property Company Limited	1,843	–
	Langfang Xincheng Property Development Company Limited	18,412	1,920
		23,855	2,235
Sales of gas (Note ii)	Enric (Bengbu) Compressor Company Limited	73	75
	Langfang Xinao Hotel Management Company Limited	560	536
	Langfang Xinao Property Management Company Limited	6,687	7,714
	Xinao Group Company Limited	145	141
	Langfang Xincheng Property Development Company Limited	207	–
		7,672	8,466
Sales of materials (Note ii)	Enric (Bengbu) Compressor Company Limited	25	–
Purchase of gas (Note ii)	Anji County Fengling LPG Company	–	222
	Haining City Mintai Coal Gas Company Limited	705	737
		705	959
Purchase of materials (note ii)	Xinao Group Shijiazhuang Chemical and Machinery Company Limited	5	–
	Enric (Bengbu) Compressor Company Limited	107	–
	Changsha City Gas Corporation	–	152
		112	152
Repair service expense (Note ii)	Enric (Bengbu) Compressor Company Limited	–	94
Lease of premises by the Group (Note iii)	Langfang Xinao Property Management Company Limited	330	330
	Xinao Group Company Limited	1,739	1,739
		2,069	2,069

38. RELATED PARTY TRANSACTIONS (continued)

Nature of transaction	Name of related party	2004 RMB'000	2003 RMB'000
Lease of premises to the Group (Note iii)	Haining City Wantong Gas Company Limited	50	50
	Haining City Mintai Coal Gas Company Limited	120	90
	Zhanjiang City Gas Group Company	300	–
		470	140
Provision for management services to the Group (Note iv)	Langfang Xinao Property Management Company Limited	1,380	1,380
Purchase of compressed natural gas truck trailers, pressure regulating and gas equipment (Note v)	Xinao Group Shijiazhuang Chemical and Machinery Company Limited	22,380	10,702
	Enric (Bengbu) Compressor Company Limited	11,603	–
		33,983	10,702
Purchase of gas appliances (Note v)	Xinao Group International Economic Development Company Limited	752	42
Purchase of land and buildings (Note vi)	Beijing Xinao Guangxia Property Development Company Limited	–	9,590
Loan advance from minority shareholders (Note vii)	Changzhou City Wujin Gas Corporation	–	17,000
	Huaian City Gas Corporation	–	509
	Kaifeng City Development Investment Company Limited	–	8,000
		–	25,509
Interest payment on loan advance (Note vii)	Changzhou City Wujin Gas Corporation	397	658
	Kaifeng City Development Investment Company Limited	244	86
	Haining City Wantong Gas Company Limited	–	66
	Huaian City Gas Corporation	–	60
	Xiangtan City Coal Gas Company	–	51
	Xinxiang City Gas Corporation	–	278
		641	1,199

38. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

- (i) The provision of gas connection service was charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (ii) The sales and purchases of gas and materials and repair service expense were charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outsiders.
- (iii) Rental for lease of premises was determined in accordance with the contracts entered into between the Group and the related parties with reference to open market rates.
- (iv) The provision of management services was determined in accordance with the contract entered into between the Group and the related party with references to open market rates.
- (v) The consideration for acquisition of compressed natural gas truck trailers, pressure regulating and gas equipment and gas appliances was charged in accordance with prices by reference to the similar transactions with outsiders.
- (vi) The consideration for acquisition of land and buildings was charged in accordance with prices by reference to the similar transactions with outsiders.
- (vii) The loans from minority shareholders are unsecured, carried interest at prevailing market rate and repayable on demand.

In the opinion of the directors of the Company, all of the above-mentioned transactions were entered into in the ordinary course of business of the Group.

39. SEGMENT INFORMATION

(a) Business segments

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

	2004 RMB'000	2003 RMB'000
Turnover		
Gas connection fees	822,697	516,468
Sales of piped gas	429,779	185,720
Distributions of bottled liquefied petroleum gas	149,185	161,402
Sales of gas appliances	38,284	14,465
	1,439,945	878,055
Profit from operations		
Gas connection fees	588,601	375,478
Sales of piped gas	74,939	28,085
Distributions of bottled liquefied petroleum gas	908	369
Sales of gas appliances	5,200	734
Unallocated other operating income	24,145	21,111
Unallocated expenses:		
– depreciation and amortisation (Note)	(56,622)	(20,962)
– corporate expenses	(278,574)	(172,186)
	358,597	232,629

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

39. SEGMENT INFORMATION (continued)**(a) Business segments** (continued)

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

	2004 RMB'000	2003 RMB'000
Assets:		
Segment assets		
gas connection fees	538,321	403,894
sales of piped gas	239,266	219,373
distributions of bottled liquefied petroleum gas	62,584	55,571
sales of gas appliances	41,435	26,966
unallocated segment assets	2,111,851	1,310,024
Unallocated corporate assets	1,924,591	1,082,097
	4,918,048	3,097,925
Liabilities:		
Segment liabilities		
gas connection fees	311,453	222,444
sales of piped gas	58,937	34,193
distributions of bottled liquefied petroleum gas	8,493	1,652
sales of gas appliances	15,797	16,014
unallocated segment liabilities	47,828	82,168
Unallocated corporate liabilities	2,117,246	1,263,908
	2,559,754	1,620,379

OTHER INFORMATION

	Capital additions		Depreciation and amortisation	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Gas connection fees	40,725	98,287	3,420	3,107
Sales of piped gas	29,694	139,145	9,209	8,356
Distributions of bottled liquefied petroleum gas	3,094	8,698	2,140	2,947
Sales of gas appliances	1,454	5,462	434	212
Unallocated segment	738,330	738,185	56,622	20,962
	813,297	989,777	71,825	35,584

(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.

40. RETIREMENT BENEFITS SCHEME

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

	2004 RMB'000	2003 RMB'000
Retirement benefits contribution made during the year	12,411	3,884

41. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group has set up the following new companies in the PRC. Details of the investments are summarised as follows:

Name of company	Capital contributed by the Group	Proportion of nominal value of registered capital held by the Group	Principal activities
長安新奧燃氣有限公司 ("Changan Xinao Gas Company Limited")	RMB11,341,000	43.62%	Investment in gas pipeline infrastructure and sales of piped gas
台州新奧燃氣有限公司 ("Taizhou Xinao Gas Company Limited")	US\$4,000,000	80%	Investment in gas pipeline infrastructure and sales of piped gas
永康新奧燃氣有限公司 ("Yongkang Xinao Gas Company Limited")	US\$8,000,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
肇慶市高新區新奧燃氣有限公司 ("Zhaoqing City High-New Zone Xinao Gas Company Limited")	US\$1,995,000	95%	Investment in gas pipeline infrastructure and sales of piped gas

42. 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 sales 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 sales of piped gas
北京新奧京谷燃氣有限公司* ("Beijing Xinao Jinggu Gas Company Limited")	The PRC	Registered capital RMB9,900,000	90%	Investment in gas pipeline infrastructure and sales 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
蚌埠新奧燃氣發展有限公司* ("Bengbu Xinao Gas Development Company Limited")	The PRC	Registered capital US\$600,000	70%	Sales of piped gas and bottled liquefied petroleum gas
濱州新奧燃氣工程有限公司# ("Binzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$600,000	100%	Investment in gas pipeline infrastructure
亳州新奧燃氣有限公司* ("Bozhou Xinao Gas Company Limited")	The PRC	Registered capital US\$3,200,000	70%	Sales of piped gas
亳州新奧燃氣工程有限公司* ("Bozhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	70%	Investment in gas pipeline infrastructure
長沙新奧燃氣有限公司* ("Changsha Xinao Gas Company Limited")	The PRC	Registered capital RMB150,000,000	55%	Investment in gas pipeline infrastructure and sales of piped gas
長沙新奧燃氣工程有限公司# ("Changsha Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$1,807,300	100%	Investment in gas pipeline infrastructure
常州新奧燃氣有限公司* ("Changzhou Xinao Gas Company Limited")	The PRC	Registered capital US\$5,000,000	60%	Investment in gas pipeline infrastructure and sales of piped gas
巢湖新奧燃氣有限公司# ("Chaohu Xinao Gas Company Limited")	The PRC	Registered capital US\$5,784,000	100%	Investment in gas pipeline infrastructure

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (continued)

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
巢湖新奧燃氣發展有限公司# ("Chaohu Xinao Gas Development Company Limited")	The PRC	Registered capital US\$420,000	100%	Sales of piped gas
滁州新奧燃氣有限公司* ("Chuzhou Xinao Gas Company Limited")	The PRC	Registered capital RMB58,710,000	90%	Sales of piped gas
滁州新奧燃氣工程有限公司* ("Chuzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$600,000	93%	Investment in gas pipeline infrastructure
貴港新奧燃氣有限公司# ("Guigang Xinao Gas Company Limited")	The PRC	Registered capital US\$3,500,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
桂林新奧燃氣有限公司* ("Guilin Xinao Gas Company Limited")	The PRC	Registered capital US\$6,000,000	60%	Investment in gas pipeline infrastructure and sales of piped gas
海安新奧燃氣有限公司# ("Haian Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	100%	Sales of piped gas
海寧新奧燃氣有限公司* ("Haining Xinao Gas Company Limited")	The PRC	Registered capital US\$5,000,000	80%	Investment in gas pipeline infrastructure and sales of piped gas
海寧新奧燃氣發展有限公司* ("Haining Xinao Gas Development Company Limited")	The PRC	Registered capital US\$800,000	86%	Sales of piped gas
淮安新奧燃氣有限公司* ("Huaian Xinao Gas Company Limited")	The PRC	Registered capital RMB30,000,000	80%	Investment in gas pipeline infrastructure and sales of piped gas and bottled liquefied petroleum gas
葫蘆島新奧燃氣有限公司* ("Huludao Xinao Gas Company Limited")	The PRC	Registered capital US\$1,207,700	90%	Sales of piped gas
葫蘆島新奧燃氣發展有限公司* ("Huludao Xinao Gas Development Company Limited")	The PRC	Registered capital US\$1,200,000	90%	Investment in gas pipeline infrastructure
金華新奧燃氣有限公司# ("Jinhua Xinao Gas Company Limited")	The PRC	Registered capital US\$5,000,000	100%	Investment in gas pipeline infrastructure

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
金華新奧燃氣發展有限公司# ("Jinhua Xinao Gas Development Company Limited")	The PRC	Registered capital US\$600,000	100%	Sales of piped gas
開封新奧燃氣有限公司* ("Kaifeng Xinao Gas Company Limited")	The PRC	Registered capital US\$10,000,000	90%	Investment in gas pipeline infrastructure and sales of piped gas
萊陽新奧燃氣有限公司* ("Laiyang Xinao Gas Company Limited")	The PRC	Registered capital US\$5,000,000	95%	Sales of piped gas and bottled liquefied petroleum gas
萊陽新奧燃氣工程有限公司* ("Laiyang Xinao Gas Project Company Limited")	The PRC	Registered capital US\$800,000	97%	Investment in gas pipeline infrastructure
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 sales 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
蘭溪新奧燃氣有限公司* ("Lanxi Xinao Gas Company Limited")	The PRC	Registered capital US\$1,500,000	80%	Investment in gas pipeline infrastructure and sales of piped gas
連雲港新奧燃氣有限公司* ("Lianyungang Xinao Gas Company Limited")	The PRC	Registered capital RMB49,512,100	70%	Sales of piped gas
連雲港新奧燃氣工程有限公司* ("Lianyungang Xinao Gas Development Company Limited")	The PRC	Registered capital RMB10,000,000	70%	Investment in gas pipeline infrastructure
聊城新奧燃氣有限公司* ("Liaocheng Xinao Gas Company Limited")	The PRC	Registered capital RMB16,000,000	90%	Sales of piped gas
聊城新奧燃氣工程有限公司* ("Liaocheng Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$1,200,000	93%	Investment in gas pipeline infrastructure
六安新奧燃氣有限公司# ("Luan Xinao Gas Company Limited")	The PRC	Registered capital RMB20,000,000	100%	Sales of piped gas
六安新奧燃氣工程有限公司# ("Luan Xinao Gas Project Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (continued)

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
南通新奧燃氣工程有限公司# ("Nantong Xinao Gas Technology Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure
青島新奧燃氣有限公司* ("Qingdao Xinao Gas Company Limited")	The PRC	Registered capital RMB20,000,000	90%	Sales of piped gas
青島新奧燃氣設施開發有限公司* ("Qingdao Xinao Gas Establishment Exploiture Company Limited")	The PRC	Registered capital US\$600,000	90%	Investment in gas pipeline infrastructure
青島新奧膠城燃氣有限公司* ("Qingdao Xinao Jiaocheng Gas Company Limited")	The PRC	Registered capital US\$5,000,000	90%	Investment in gas pipeline infrastructure and sales of piped gas
青島新奧膠南燃氣有限公司# ("Qingdao Xinao Jiaonan Gas Company Limited")	The PRC	Registered capital US\$2,000,000	100%	Sales of piped gas
青島新奧膠南燃氣工程有限公司# ("Qingdao Xinao Jiaonan Gas Engineering Company Limited")	The PRC	Registered capital US\$1,000,000	100%	Investment in gas pipeline infrastructure
青島新奧新城燃氣有限公司* ("Qingdao Xinao Xincheng Gas Company Limited")	The PRC	Registered capital US\$1,610,000	90%	Sales of piped gas
青島新奧新城燃氣工程有限公司* ("Qingdao Xinao Xincheng Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	93%	Investment in gas pipeline infrastructure
衢州新奧燃氣有限公司* ("Quzhou Xinao Gas Company Limited")	The PRC	Registered capital RMB50,000,000	90%	Investment in gas pipeline infrastructure
衢州新奧燃氣發展有限公司* ("Quzhou Xinao Gas Development Company Limited")	The PRC	Registered capital US\$600,000	90%	Sales of piped gas
日照新奧燃氣有限公司* ("Rizhao Xinao Gas Company Limited")	The PRC	Registered capital US\$5,600,000	80%	Sales of piped gas
日照新奧燃氣工程有限公司* ("Rizhao Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$1,210,000	86%	Investment in gas pipeline infrastructure

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (continued)

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
商丘新奧燃氣有限公司# ("Shangqiu Xinao Gas Company Limited")	The PRC	Registered capital US\$7,000,000	100%	Sales of piped gas
商丘新奧燃氣工程有限公司# ("Shangqiu Xinao Gas Engineering Company Limited ")	The PRC	Registered capital US\$3,000,000	100%	Investment in gas pipeline infrastructure
汕頭新奧燃氣有限公司* ("Shantou Xinao Gas Company Limited")	The PRC	Registered capital RMB34,580,000	51%	Sales of piped gas
石家莊新奧燃氣有限公司* ("Shijiazhuang Xinao Gas Company Limited")	The PRC	Registered capital RMB130,000,000	70%	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奧車用燃氣有限公司* ("Shijiazhuang Xinao Vehicle Gas Company Limited")	The PRC	Registered capital RMB1,000,000	46%	Production and sales of gas for vehicle use
泰興新奧燃氣有限公司* ("Taixing Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	90%	Sales of piped gas
泰興新奧燃氣工程有限公司* ("Taixing Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	90%	Investment in gas pipeline infrastructure
通遼新奧燃氣有限公司* ("Tongliao Xinao Gas Company Limited")	The PRC	Registered capital US\$3,000,000	80%	Investment in gas pipeline infrastructure, sales of gas appliances and equipment provision of repair and maintenance service and operation of natural gas stations
溫州新奧燃氣有限公司# ("Wenzhou Xinao Gas Company Limited")	The PRC	Registered capital US\$3,100,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
溫州新奧燃氣工程有限公司# ("Wenzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$700,000	100%	Investment in gas pipeline infrastructure
溫州龍灣新奧燃氣有限公司# ("Wenzhou Longwan Xinao Gas Company Limited")	The PRC	Registered capital US\$6,000,000	100%	Investment in gas pipeline infrastructure and sales of piped gas

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (continued)

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
湘潭新奧燃氣有限公司* ("Xiangtan Xinao Gas Company Limited")	The PRC	Registered capital RMB100,000,000	85%	Investment in gas pipeline infrastructure and sales of piped gas
新奧(中國)燃氣投資有限公司# ("Xinao (China) Gas Investment Company Limited")	The PRC	Registered capital US\$30,000,000	100%	Sales of piped gas, supply of electricity and water and investment in infrastructure projects
新奧燃氣發展有限公司# ("Xinao Gas Development Company Limited") (Formerly known as Xinao (China) Gas Development Company Limited)	The PRC	Registered capital US\$6,000,000	100%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas
Xinao Gas Investment Group Limited	British Virgin Islands	Share capital US\$1,000	100%	Investment holding
興化新奧燃氣有限公司# ("Xinghua Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	100%	Sales of piped gas
興化新奧燃氣工程有限公司# ("Xinghua Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$600,000	100%	Investment in gas pipeline infrastructure
新鄉新奧燃氣有限公司* ("Xinxiang Xinao Gas Company Limited")	The PRC	Registered capital US\$10,000,000	95%	Sales of piped gas and bottled liquefied petroleum gas
新鄉新奧燃氣工程有限公司* ("Xinxiang Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$1,200,000	97%	Investment in gas pipeline infrastructure
鹽城新奧燃氣有限公司# ("Yancheng Xinao Gas Company Limited")	The PRC	Registered capital RMB50,000,000	100%	Investment in gas pipeline infrastructure
鹽城新奧燃氣發展有限公司# ("Yancheng Xinao Gas Development Company Limited")	The PRC	Registered capital US\$600,000	100%	Sales of piped gas
揚州新奧燃氣有限公司# ("Yangzhou Xinao Gas Company Limited")	The PRC	Registered capital US\$1,300,000	100%	Sales of piped gas
揚州新奧燃氣工程有限公司# ("Yangzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
煙台新奧燃氣有限公司 [#] ("Yantai Xinao Gas Company Limited")	The PRC	Registered capital US\$2,100,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
煙台新奧實業有限公司 [*] ("Yantai Xinao Industry Company Limited")	The PRC	Registered capital RMB55,000,000	60%	Investment in CNG vehicle refueling station, pipeline construction, installation of gas equipment, production and sales of gas equipment
湛江新奧燃氣有限公司 [*] ("Zhanjiang Xinao Gas Company Limited")	The PRC	Registered capital RMB85,000,000	60%	Investment in gas pipeline infrastructure and sales 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	100%	Sales of piped gas and bottled liquefied petroleum gas
諸城新奧管道工程有限公司 [#] ("Zhucheng Xinao Pipeline Engineering Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure
株洲新奧燃氣有限公司 [*] ("Zhuzhou Xinao Gas Company Limited")	The PRC	Registered capital RMB135,000,000	55%	Investment in gas pipeline infrastructure and sales of piped gas
鄒平新奧燃氣有限公司 [#] ("Zouping Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	100%	Sales of piped gas

All of the above subsidiaries, except for Xinao Gas Investment Group Limited and Xinao (China) Gas Investment Company 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 debt securities subsisting as at 31 December 2004 or at any time during the year.

* Sino-foreign equity joint venture

Wholly foreign owned enterprise



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