



XINAO GAS HOLDINGS LIMITED 新奥燃气控股有限公司*

(incorporated in the Cayman Islands with limited liability)



Listing by Introduction

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**INTRODUCTION OF
THE ENTIRE ISSUED SHARE CAPITAL
OF**



XINAO GAS HOLDINGS LIMITED

新奧燃氣控股有限公司*

(incorporated in the Cayman Islands with limited liability)

**ON
THE STOCK EXCHANGE OF HONG KONG LIMITED**

Stock code: 2688

Sponsor



This document is published in connection with the listing by way of introduction on the Stock Exchange of the entire issued share capital of Xinao Gas Holdings Limited and contains particulars given in compliance with the Securities (Stock Exchange Listing) Rules 1989 (as amended) of Hong Kong and the Rules Governing the Listing of Securities on the Stock Exchange for the purpose of giving information with regard to Xinao Gas Holdings Limited.

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Your attention is drawn to the section headed “Risk factors” in this document.

The shares of HK\$0.10 each in the capital of Xinao Gas Holdings Limited (“Shares”) have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in the Central Clearing and Settlement System (“CCASS”) with effect from 10 May 2001, the date on which the Shares were listed on the Growth Enterprise Market of the Stock Exchange. Subject to the granting of the listing of, and permission to deal in, the Shares on the Main Board by the Stock Exchange and the continue compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once the dealings in the Shares on the Main Board of the Stock Exchange commence. Necessary arrangements have been made with HKSCC for the Shares to continue to be accepted as eligible securities of CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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DEFINITIONS

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

“Annual General Meeting”	an annual general meeting of the Company to be held on Tuesday, 21 May 2002 at 9:30 a.m.
“Articles of Association”	the articles of association of the Company
“associate”	shall have the meaning ascribed thereto in the Listing Rules
“Beijing Xinao”	北京新奧燃氣有限公司(Beijing Xinao Gas Company Limited*), a PRC company originally established on 10 September 1999 and was converted into a Sino-foreign equity joint venture established in the PRC on 8 August 2000 in which Miyun BVI has a 95% interest and 北京市密雲化工公司 (Beijing City Miyun Chemicals Company*, an independent third party not associated with the connected persons of the Company) has the remaining 5% interest
“Bengbu Xinao”	蚌埠新奧燃氣有限公司(Bengbu Xinao Gas Company Limited*), a Sino-foreign joint venture established in the PRC on 28 December 2001 in which Southeast China BVI has a 70% interest and 蚌埠市城市建設投資經營有限公司(Bengbu City Construction Investment Company Limited*, an independent third party not associated with the connected persons of the Company) has the remaining 30% interest
“Board”	the board of Directors
“branch pipeline”	a pipeline which is laid within an Operational Location connecting a main pipeline with a pressure regulating box
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Changping BVI”	Xinao Changping Investment Limited, an indirect wholly owned subsidiary of the Company incorporated in the British Virgin Islands on 19 December 2000 with limited liability and is an investment holding company
“Chengyang BVI”	Xinao Chengyang Investment Limited, an indirect wholly owned subsidiary of the Company incorporated in the British Virgin Islands on 15 August 2000 with limited liability and is an investment holding company

DEFINITIONS

“Companies Law”	the Companies Law (2001 Second Revision) (Chapter 22 of the Laws of the Cayman Islands)
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company” or “Xinao”	Xinao Gas Holdings Limited, an exempted company incorporated in the Cayman Islands on 20 July 2000 with limited liability
“connected person(s)”	shall have the meaning ascribed thereto in the Listing Rules
“customers’ pipeline”	a pipeline which is laid within the relevant customer’s premises and connected to a pressure regulating box
“Director(s)”	the director(s) of the Company
“Easywin”	Easywin Enterprises Limited, a company incorporated in the British Virgin Islands on 18 July 2000 with limited liability which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao
“Extraordinary General Meeting”	an extraordinary general meeting of the Company to be held on Tuesday, 21 May 2002 at 9:45 a.m. (or as soon as practicable immediately after the conclusion or adjournment of the Annual General Meeting to be convened at the same place and date at 9:30 a.m.) or any adjournment thereof)
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huangdao BVI”	Xinao Huangdao Investment Limited, an indirect wholly owned subsidiary of the Company incorporated in the British Virgin Islands on 19 December 2000 with limited liability and is an investment holding company
“Huludao BVI”	Xinao Huludao Investment Limited, an indirect wholly owned subsidiary of the Company incorporated in the British Virgin Islands on 25 May 2000 with limited liability and is an investment holding company

DEFINITIONS

“Huludao Xinao”	葫蘆島新奧燃氣有限公司(Huludao Xinao Gas Company Limited*), a PRC company originally established on 24 December 1999 and was converted into a Sino-foreign equity joint venture established in the PRC on 7 August 2000 in which Huludao BVI has a 90% interest and 葫蘆島市城市建設投資有限公司(Huludao City Urban Construction Investment Company Limited*, an independent third party not associated with the connected persons of the Company) has the remaining 10% interest
“intermediate pipeline”	a pipeline connecting a long distance pipeline with a processing station
“Introduction”	the proposed listing of the Shares on the Main Board by way of an introduction pursuant to the Listing Rules
“Jiangsu BVI”	Xinao Jiangsu Investment Limited, an indirect wholly owned subsidiary of the Company incorporated in the British Virgin Islands on 16 November 2001 with limited liability and is an investment holding company
“Jingchang Xinao”	北京新奧京昌燃氣有限公司(Beijing Xinao Jingchang Gas Company Limited*), a PRC company originally established on 16 November 2000 and was converted into a Sino-foreign equity joint venture established in the PRC on 16 August 2001 in which Changping BVI has an 80% interest and 北京市昌平市政經濟發展總公司(Beijing City Changping Urban Economic Development Corporation*, an independent third party not associated with the connected persons of the Company) has the remaining 20% interest
“Jinggu Xinao”	北京新奧京谷燃氣有限公司(Beijing Xinao Jinggu Gas Company Limited*), a PRC company originally established on 11 August 2000 and was converted into a Sino-foreign equity joint venture established in the PRC on 18 June 2001 in which Pinggu BVI has a 70% interest and 平谷縣液化石油氣公司(Pinggu County LPG Company*, an independent third party not associated with the connected persons of the Company) has the remaining 30% interest
“Jingzhou BVI”	Xinao Jingzhou Investment Limited, an indirect wholly owned subsidiary of the Company incorporated in the British Virgin Islands on 15 August 2000 with limited liability and is an investment holding company

DEFINITIONS

“Jingzhou Xinao”	荊州新奧燃氣有限公司(Jingzhou Xinao Gas Company Limited*), a Sino-foreign equity joint venture to be established pursuant to Project Jingzhou. Jingzhou Xinao will be owned as to 80% by Jingzhou BVI and 20% by 荊州市城市建設投資開發公司(Jingzhou City Urban Construction Investment Development Company*, an independent third party not associated with the connected persons of the Company)
“Laiyang Xinao”	萊陽新奧燃氣有限公司(Laiyang Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in the PRC on 3 April 2002 in which Shandong BVI has a 95% interest and 萊陽市煤氣公司(Laiyang City Coal Gas Company*, an independent third party not associated with the connected persons of the Company) has the remaining 5% interest
“Langfang BVI”	Xinao Langfang Investment Limited, an indirect wholly owned subsidiary of the Company incorporated in the British Virgin Islands on 21 February 2000 with limited liability and is an investment holding company
“Langfang City Gas”	廊坊市天然氣有限公司(Langfang City Natural Gas Company Limited*), a company established in the PRC on 26 October 1992 and is indirectly wholly-owned by Mr. Wang’s family (with Mr. Wang owning an indirect interest of approximately 96.4%)
“Langfang Xinao”	廊坊新奧燃氣有限公司(Langfang Xinao Gas Company Limited*), a Sino-foreign equity joint venture originally established in the PRC on 28 March 1993 and was converted into a wholly owned foreign enterprise of Langfang BVI on 21 December 2001
“Latest Practicable Date”	18 April 2002, being the latest practicable date of ascertaining certain information contained in this document prior to its publication
“Liaocheng BVI”	Xinao Liaocheng Investment Limited, an indirect wholly owned subsidiary of the Company incorporated in the British Virgin Islands on 26 April 2000 with limited liability and is an investment holding company
“Liaocheng Xinao”	聊城新奧燃氣有限公司(Liaocheng Xinao Gas Company Limited*), a PRC company originally established on 11 June 1999 and was converted into a Sino-foreign equity joint venture established in the PRC on 8 August 2000 in which Liaocheng BVI has a 90% interest and 聊城市熱力公司(Liaocheng City Heating Company*, an independent third party not associated with the connected persons of the Company) has the remaining 10% interest

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“long distance pipeline”	a pipeline used for the transmission of natural gas from a gas source to major gas consumption areas
“Main Board”	the securities market operated by the Stock Exchange prior to the establishment of GEM and which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“main pipeline”	a pipeline which is laid underneath major roads or streets within an Operational Location connecting a processing station with branch pipelines
“Memorandum”	the memorandum of association of the Company
“Miyun BVI”	Xinao Miyun Investment Limited, an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 26 April 2000 with limited liability and is an investment holding company
“Mr. Wang”	Mr. Wang Yusuo (王玉鎖先生), the chairman of the Company and an executive Director, and the spouse of Ms. Zhao
“Ms. Zhao”	Ms. Zhao Baoju (趙寶菊女士), a non-executive Director and the spouse of Mr. Wang
“Operational Location(s)”	existing or future location(s) in the PRC at which any member of the Group operates, or intends to operate, piped gas business from time to time
“Pinggu BVI”	Xinao Pinggu Investment Limited, an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 19 December 2000 with limited liability and is an investment holding company
“PRC” or “China”	the People’s Republic of China, which for the purposes of this document, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“pressure regulating box”	a box size device usually located at the customer’s premises adjusting the gas pressure before the gas is transmitted into the customers’ pipeline

DEFINITIONS

“processing station”	a station normally located on the outskirts of an Operational Location with facilities to store, transmit, depressurise, measure and add odour to gas. In addition, backup facilities such as CNG or LNG depressurising facilities, pressurising facilities and LPG air mixing facilities may be installed at such station
“Project Companies”	the 16 project companies in which the Company has controlling interests namely, Langfang Xinao, Liaocheng Xinao, Beijing Xinao, Huludao Xinao, Jingchang Xinao, Jinggu Xinao, Qingdao Xinao, Xincheng Xinao, Zhucheng Xinao, Yantai Xinao, Bengbu Xinao, Yangzhou Xinao, Taixing Xinao, Zouping Xinao, Laiyang Xinao and Yancheng Xinao or where the context requires, any one or more of the 16 project companies
“Project Jingzhou”	the project relating to the provision of piped gas to the Jingzhou city centre by way of establishment of Jingzhou Xinao as more particularly described in the paragraph headed “The Group’s business – Description of Project Jingzhou” in this document
“Proposed Share Option Scheme”	the share option scheme proposed to be adopted at the Extraordinary General Meeting, the principal terms of which are summarised in the paragraph headed “Proposed Share Option Scheme” in Appendix IV to this document
“Prospectus”	the prospectus of the Company dated 27 April 2001 in connection with the listing of the Shares on GEM by way of placing
“Qingdao Xinao”	青島新奧燃氣有限公司(Qingdao Xinao Gas Company Limited*), a PRC company originally established on 30 October 2000 and was converted into a Sino-foreign equity joint venture established in the PRC on 12 June 2001 in which Huangdao BVI has a 90% interest and 青島經濟技術開發區熱電燃氣總公司(Qingdao Economic and Technical Development Zone Heating, Electricity and Gas Corporation*, an independent third party not associated with the connected persons of the Company) has the remaining 10% interest
“Reorganisation”	the reorganisation of the group of companies now comprising the Group completed in March 2001 as more particularly described in the paragraph headed “Corporate reorganisation” in Appendix V to the Prospectus

DEFINITIONS

“Repurchase Mandate”	the share repurchase mandate proposed to be granted to the Directors at the Annual General Meeting
“Rothschild” or “Sponsor”	N M Rothschild & Sons (Hong Kong) Limited
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Shandong BVI”	Xinao Shandong Investment Limited, an indirect wholly owned subsidiary of the Company incorporated in the British Virgin Islands on 16 November 2001 with limited liability and is an investment holding company
“Share Option Scheme”	the share option scheme for employees and directors of the Group conditionally adopted by the Company on 24 April 2001
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of Shares
“Southeast China BVI”	Xinao Southeast China Investment Limited, an indirect wholly owned subsidiary of the Company incorporated in the British Virgin Islands on 17 August 2001 with limited liability and is an investment holding company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Taixing Xinao”	泰興新奧燃氣有限公司(Taixing Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in the PRC on 4 February 2002 in which Jiangsu BVI has a 90% interest and 泰興市管道液化氣公司 (Taixing City Piped LPG Company*, an independent third party not associated with the connected persons of the Company) has the remaining 10% interest
“Track Record Period”	the period comprising the three financial years ended 31 December 2001
“XGCL”	新奧集團股份有限公司(Xinao Group Company Limited*), a joint stock limited company established in the PRC on 5 August 1997 and is controlled by and indirectly owned as to approximately 52.4% by Mr. Wang. The remaining 47.6% interest of XGCL is owned by, among others, a PRC State-owned enterprise, certain Directors and father of Mr. Wang
“XGCL Group”	XGCL and its subsidiaries

DEFINITIONS

- “Xinao Gas Development” 新奧（中國）燃氣發展有限公司(Xinao (China) Gas Development Company Limited*), a wholly owned foreign enterprise of Langfang BVI established in the PRC on 26 June 2001
- “Xinao Gas Equipment” 廊坊新奧燃氣設備有限公司(Langfang Xinao Gas Equipment Company Limited*), a wholly owned foreign enterprise of Langfang BVI established in the PRC on 24 June 2001
- “Xinao Gas Investment” Xinao Gas Investment Group Limited, a direct wholly owned subsidiary of the Company incorporated in the British Virgin Islands on 4 January 2000 with limited liability
- “Xinao Machinery” 新奧集團石家莊化工機械股份有限公司(Xinao Group Shijiazhuang Petrochemical and Machinery Company Limited*), a company established in the PRC on 31 December 1996 and is controlled by and indirectly owned as to approximately 67.1% by Mr. Wang. The remaining 32.9% interest of Xinao Machinery is owned as to approximately 4.8% by Mr. Wang Baozhong (father of Mr. Wang), as to 5% by 北京鼎昌源公司 (Beijing Dingchangyuan Company*, an independent third party not associated with the connected persons of the Company), as to approximately 17.7% by the individual shareholders of XGCL and as to approximately 5.4% by 廊坊市液化氣供應公司 (Langfang City LPG Supply Company*, a state-owned enterprise, which is an independent third party not associated with the connected persons of the Company)
- “Xincheng Xinao” 青島新奧新城燃氣有限公司(Qingdao Xinao Xincheng Gas Company Limited*), a Sino-foreign equity joint venture established in the PRC on 13 June 2001 in which Chengyang BVI has a 90% interest and 青島城陽建設工程監理有限公司(Qingdao Chengyang Construction Engineering Supervisory Company Limited*, an independent third party not associated with the connected persons of the Company) has the remaining 10% interest
- “Yancheng Xinao” 鹽城新奧燃氣有限公司 (Yancheng Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in the PRC on 3 April 2002 in which Jiangsu BVI has an 80% interest and 上海岩鑫實業投資有限公司 (Shanghai Yanxin Enterprise Investment Company Limited*, an independent third party not associated with the connected persons of the Company) has the remaining 20% interest

DEFINITIONS

“Yancheng Xinao CNG”	鹽城新奧壓縮天然氣有限公司 (Yancheng Xinao Compressed Natural Gas Company Limited*), a Sino-foreign equity joint venture to be established. Yancheng Xinao CNG will be owned as to 50% by Jiangsu BVI and 50% by 鹽城市天然氣開發利用有限公司 (Yancheng City Natural Gas Development and Usage Company Limited*, an independent third party not associated with the connected persons of the Company)
“Yangzhou Xinao”	揚州新奧燃氣有限公司 (Yangzhou Xinao Gas Company Limited*), a wholly owned foreign enterprise of Jiangsu BVI established in the PRC on 18 December 2001
“Yantai BVI”	Xinao Yantai Investment Limited, an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 22 March 2001 with limited liability and is an investment holding company
“Yantai Xinao”	煙台新奧燃氣有限公司 (Yantai Xinao Gas Company Limited*), a wholly owned foreign enterprise of Yantai BVI established in the PRC on 16 July 2001
“Zhucheng BVI”	Xinao Zhucheng Investment Limited, an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 10 August 2000 with limited liability and is an investment holding company
“Zhucheng Xinao”	諸城新奧燃氣有限公司 (Zhucheng Xinao Gas Company Limited*), a Sino-foreign equity joint venture established in the PRC on 30 May 2001 in which Zhucheng BVI has an 80% interest and 諸城市燃氣熱力總公司 (Zhucheng City Gas and Heating Corporation*, an independent third party not associated with the connected persons of the Company) has the remaining 20% interest
“Zouping Xinao”	鄒平新奧燃氣有限公司 (Zouping Xinao Gas Company Limited*), a wholly owned foreign enterprise of Shandong BVI established in the PRC on 21 January 2002
“US” or “United States”	the United States of America
“HK\$” or “cents”	Hong Kong dollars or cents, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States

DEFINITIONS

“km”	kilometre
“km ² ”	square kilometre
“m ² ” or “sq.m.”	square metre
“m ³ ”	cubic metre
“sq.ft.”	square feet
“%”	per cent.

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

* *For identification only*

GLOSSARY OF TERMS

In this document, the following words and expressions have the following meanings:

“CNG”	natural gas that is compressed to high density through imposing high-pressure to facilitate the ease and efficiency of transportation
“GDP”	gross domestic product
“gigajoule”	1,000,000,000 joules
“heat content”	the amount of energy released when certain fuel is being burnt. The measurement unit for heat content is joule per unit of fuel
“joule”	measurement unit of heat
“LNG”	natural gas which is converted into liquid form through application of high pressure and cooling
“LPG”	liquefied petroleum gas, being petroleum gas composed primarily of propane and butane, which is converted into liquid form through application of high pressure and cooling. LPG is a by-product of the extraction of oil or natural gas
“natural gas”	a fossil fuel with a combustible mixture of hydrocarbon compounds composed primarily of methane, but also containing small amounts of other gases including ethane, propane, butane and pentane, and usually found in deep underground reservoirs formed by porous rocks
“piped gas”	gas transmitted to end users through pipelines, “piped natural gas” and “piped LPG” shall be construed accordingly

SUMMARY

This summary aims to give you an overview of the information contained in this document. Because this is a summary, it does not contain all of the information that may be important to you.

OVERVIEW

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

The Group's business operations began in 1993 when Mr. Wang and Ms. Zhao formed Langfang Xinao to invest in the construction of gas pipeline infrastructure for the sale and distribution of piped natural gas in the Langfang Economic and Technical Development Zone in Hebei Province, the PRC. The Group's gas supply business is conducted through its Project Companies.

The Group has made gas connections to a total of 30,607, 66,253 and 108,001 households and 165, 242 and 355 commercial and industrial sites as at 31 December 1999, 2000 and 2001, respectively. As at 28 February 2002, the Project Companies have made gas connections to a total of 110,892 households and 358 commercial and industrial sites (connected to a total installed designed daily capacity of gas appliance facilities of approximately 270,455 m³). The Group purchases natural gas primarily from PetroChina Company Limited, China National Offshore Oil Corporation and China Petrochemical Group Corporation, which are oil and gas exploration and production companies in the PRC. The gas pipeline infrastructure owned and operated by the Group consists of intermediate pipelines, processing stations, main pipelines, branch pipelines and other ancillary facilities such as gas storage tanks and pressure regulating boxes. As at 28 February 2002, the Project Companies owned and operated a total of 487 km of intermediate pipelines and main pipelines and 12 processing stations.

Although the PRC has historically relied heavily on coal as its primary energy source, the PRC Government in recent years has strongly encouraged the use of other more environmentally friendly forms of fuel such as natural gas to combat the pollution and environmental damage caused by coal combustion. As the natural gas industry in the PRC is still in its infancy, with natural gas usage accounting for only 2.5% of the PRC's total energy consumption in 2000, the Directors believe that the natural gas industry offers significant growth potential.

The Group derives its revenues principally from connection fees receivable on the initial connection of gas and gas usage charges, and to a lesser extent, revenues are also derived from the sale of gas appliances and the provision of repair, maintenance and other services. For each of the three financial years ended 31 December 2001, the Group recorded a turnover of approximately RMB52.9 million, RMB122.3 million and RMB240.6 million, respectively. Connection fees accounted for approximately 72.8%, 82.8% and 76.8% of the Group's total turnover for each of the three financial years ended 31 December 2001, respectively. Gas usage charges accounted for approximately 27.1%, 16.8% and 21.0% of the Group's total turnover for each of the three financial years ended 31 December 2001, respectively.

For each of the three financial years ended 31 December 2001, the Group's net profit attributable to Shareholders was approximately RMB15.1 million, RMB37.4 million and RMB79.3 million, respectively.

SUMMARY

The table below summarises certain information relating to the Project Companies as at 28 February 2002.

Project Companies	Length of existing pipelines ⁽¹⁾ (km)	Number of existing processing stations	Combined designed daily capacity of existing processing stations (m ³)	Contracted number of gas supply locations ⁽²⁾	Number of gas connections made ⁽²⁾	Estimated daily gas consumption for residential households ⁽³⁾ (m ³)	Installed designed daily capacity for commercial and industrial customers ⁽⁴⁾ (m ³)
1. Langfang Xinao	192	4	409,800	60,847 households and 257 sites	58,601 households and 242 sites	23,440	164,899
2. Liaocheng Xinao	72	1	50,000	17,350 households and 37 sites	11,130 households and 31 sites	4,452	14,315
3. Beijing Xinao	30	1	72,000	8,857 households and 21 sites	4,621 households and 17 sites	1,848	62,828
4. Huludao Xinao	54	1	30,000	27,349 households and 57 sites	22,585 households and 49 sites	9,034	21,749
5. Jingchang Xinao	33	1	72,000	9,381 households and 9 sites	4,494 households and 8 sites	1,798	1,828
6. Jinggu Xinao	32	1	72,000	6,634 households and 8 sites	2,710 households and 6 sites	1,084	2,464
7. Qingdao Xinao	40	1	72,000	7,515 households and 7 sites	3,786 households and 4 sites	1,514	2,272
8. Xincheng Xinao	12	1	30,000	4,838 households and 1 site	1,511 households	604	–
9. Zhucheng Xinao	10	1	40,000	2,524 households and 1 site	626 households and 1 site	250	100

SUMMARY

Project Companies	Length of existing pipelines ⁽¹⁾ <i>(km)</i>	Number of existing processing stations	Combined designed	Contracted number of gas supply locations ⁽²⁾	Number of gas connections made ⁽²⁾	Estimated	Installed
			daily capacity of existing processing stations <i>(m³)</i>			daily gas consumption for residential households ⁽³⁾ <i>(m³)</i>	designed daily capacity for commercial and industrial customers ⁽⁴⁾ <i>(m³)</i>
10. Yantai Xinao			Expected to commence gas supply to its customers from June 2002 onwards.				
11. Bengbu Xinao ⁽⁶⁾	7	-	-	3,289 household	-	-	-
12. Yangzhou Xinao			Expected to commence gas supply to its customers from October 2002 onwards.				
13. Taixing Xinao			Expected to commence gas supply to its customers from June 2002 onwards.				
14. Zouping Xinao ⁽⁷⁾	5	-	-	1,045 households	828 households	331	-
Total	487	12	847,800	149,629 households and 398 sites	110,892 households and 358 sites	44,355	270,455

Notes:

- (1) Existing pipelines represent intermediate pipelines and main pipelines.
- (2) The difference between contracted number of gas supply locations and number of gas connections made represents connections to be made.
- (3) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential customers with gas connections made.
- (4) Estimated gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity of their gas appliance facilities (as set out in the respective supply contracts) for those customers with gas connections made.
- (5) Sites represent both commercial sites and industrial sites.
- (6) It is currently intended that Bengbu Xinao will commence gas supply to its customers from August 2002 onwards. Data shown above represent operational data of the previous operator taken over by Bengbu Xinao.
- (7) It is currently intended that Zouping Xinao will commence gas supply to its customers from October 2002 onwards. Data shown above represent operational data of the previous operator taken over by Zouping Xinao.
- (8) Laiyang Xinao and Yancheng Xinao were both established on 3 April 2002.

SUMMARY

FUTURE PLANS AND PROSPECTS

The Directors anticipate strong growth in the demand for piped gas in the PRC for the foreseeable future. The Group plans to:

- (i) further develop existing Operational Locations;
- (ii) further expand to new Operational Locations;
- (iii) carry our research and development with a view to improving the existing piped gas technology; and
- (iv) obtain certification for technological quality control and improve operational efficiencies and customer relationships by implementing new information system.

USE OF PROCEEDS FROM THE PLACEMENT OF SHARES IN MAY 2001

The Company raised approximately HK\$204 million of net proceeds through the placement of 207 million Shares at HK\$1.15 per Share in May 2001. Set out below is the intended use of proceeds as stated in the Prospectus:

- (i) as to approximately HK\$109 million for the construction of pipelines;
- (ii) as to approximately HK\$31 million for the construction of processing stations;
- (iii) as to approximately HK\$31 million for the acquisition of interests in Jingchang Xinao, Jinggu Xinao and Qingdao Xinao (please refer to the Prospectus for further details);
- (iv) as to approximately HK\$3 million for developing the internal capability to manufacture stored value card gas metres; and
- (v) as to approximately HK\$30 million as general working capital of the Group to support its ongoing operations and expansion.

The Group's actual use of proceeds for the period since its listing in May 2001 and up to 31 December 2001 was approximately HK\$105 million. The Group will use the remaining unutilised net proceeds of approximately HK\$99 million in accordance with its plans as set out in the Prospectus.

USE OF PROCEEDS FROM THE ISSUE OF NEW SHARES IN MARCH 2002

The Company raised approximately HK\$326 million of net proceeds from the issue of 110 million new Shares at HK\$3.05 per Share in March 2002. Set out below is the intended use of proceeds:

- (i) as to approximately HK\$70 million for the investment in a gas project located in Huaian, Jiangsu Province, the PRC;
- (ii) as to approximately HK\$60 million for the investment in Yancheng Xinao;
- (iii) as to approximately HK\$90 million for the investment in new piped gas distribution projects to be identified in Anhui Province, the PRC;

SUMMARY

- (iv) as to approximately HK\$90 million for the investment in new piped gas distribution projects to be identified in Jiangsu Province, the PRC; and
- (v) as to the balance for general corporate purposes, including further investments which are in line with the business objectives of the Company as described in the Prospectus.

TRADING RECORD

The following table summarises the Group's combined results for the three financial years ended 31 December 2001 and is prepared on the basis that the Group's equity interest in Langfang Xinao contributed by Mr. Wang and Ms. Zhao had been in existence since 1 January 1999 and throughout the Track Record Period and the Group's additional equity interest in Langfang Xinao and equity interests in other companies since their respective dates of acquisition. The summary should be read in conjunction with the accountants' report set out in Appendix I to this document.

	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover			
Connection fees	38,508	101,282	184,796
Gas usage charges	14,342	20,517	50,594
Sale of gas appliances	73	471	5,170
	<u>52,923</u>	<u>122,270</u>	<u>240,560</u>
Cost of sales	<u>(23,492)</u>	<u>(58,362)</u>	<u>(97,429)</u>
Gross profit	29,431	63,908	143,131
Other revenue	793	945	7,946
Tax refund	2,656	5,180	5,388
Selling expenses	(273)	(2,041)	(4,446)
Administrative expenses	(3,690)	(9,153)	(40,780)
Other operating expenses	(45)	(357)	(1,323)
	<u>28,872</u>	<u>58,482</u>	<u>109,916</u>
Finance costs	<u>(3,300)</u>	<u>(8,112)</u>	<u>(10,318)</u>
Profit from operations	28,872	58,482	109,916
Finance costs	<u>(3,300)</u>	<u>(8,112)</u>	<u>(10,318)</u>
Profit before taxation	25,572	50,370	99,598
Taxation	<u>(3,836)</u>	<u>(6,976)</u>	<u>(11,081)</u>
Profit before minority interests	21,736	43,394	88,517
Minority interests	<u>(6,653)</u>	<u>(6,018)</u>	<u>(9,250)</u>
Profit for the year	<u>15,083</u>	<u>37,376</u>	<u>79,267</u>
Dividends	<u>–</u>	<u>30,529</u>	<u>–</u>
Earnings per Share (RMB) (<i>Note</i>)	<u>3.6 cents</u>	<u>8.9 cents</u>	<u>14.3 cents</u>

Note: The calculation of earnings per Share is based on the profits attributable to Shareholders of the relevant years and on 420,000,000 Shares as if those Shares had been outstanding for each of 1999 and 2000 and the weighted average number of 553,446,575 Shares in issue during 2001.

SUMMARY

KEY FINANCIAL INFORMATION

Earnings per Share for the financial year ended 31 December 2001 (*Note 1*) RMB14.3 cents

Adjusted net tangible asset value per Share (*Note 2*) RMB1.08

Board lot size 2,000 Shares

Notes:

- (1) The calculation of earnings per Share is based on the profits attributable to Shareholders for the financial year ended 31 December 2001 and the weighted average number of 553,446,575 Shares in issue during the year.
- (2) The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed “Financial information – Adjusted net tangible assets” in this document and is based on 737,000,000 Shares in issue upon the Introduction, but taking no account of any Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme or the Proposed Share Option Scheme or upon the exercise by the Directors of the general mandates granted to them to allot and issue Shares, or Shares which may be repurchased by the Company.

RISK FACTORS

The Directors consider the business of the Group to be subject to a number of risks, which can be summarised as follows:

- Risks relating to the Group and its business
 - Substantial initial capital expenditure requirement
 - Dependence on economic development of an Operational Location
 - Price control
 - Dependence on property development of an Operational Location
 - Reliance on the suppliers of natural gas
 - Properties in the PRC without land use right certificates and/or building ownership certificates
 - Limited insurance coverage
 - Environmental liability
 - Risks of investing in enterprises in the PRC
 - Holding company risks
 - Reliance on key management
 - Changes in favourable taxation treatment
 - Concentration of ownership
 - Non-inclusion of a profit-forecast for the financial year ending 31 December 2002
 - Ability to sustain a high profit margin
- Risks relating to the industry
 - Substitute products
- Risks relating to the PRC
 - Political and economic considerations
 - Changes in laws, regulations and policies
 - Changes in foreign exchange regulations
 - Currency and exchange fluctuations

RISK FACTORS

You should consider carefully all of the information set out in this document and, in particular, should evaluate the following risks with regard to the Group.

RISKS RELATING TO THE GROUP AND ITS BUSINESS

Substantial initial capital expenditure requirement

Due to the nature of the Group's business, the Group is required to make a substantial initial investment in the construction of gas pipeline infrastructure for each gas project. The initial investment must be financed by internal resources of the Group, bank loans or equity fund raising. There can be no assurance that external sources of financing will be available to fund the Group's capital expenditure programme. The failure to obtain such financing may hinder the Group's ability to continue its existing investments or make new investments.

Dependence on economic development of an Operational Location

The business of the Group relies, in part, on the economic development of its Operational Locations. Although the Group carries out comprehensive financial and legal due diligence in respect of each project, there is no guarantee that an Operational Location will develop or prosper economically as projected by the relevant local government. Given the substantial capital investment at the early stages of each project, any unexpected adverse changes in the economic growth of an Operational Location may materially adversely affect the performance of the relevant project and hence, the performance of the Group.

Price control

Connection fees chargeable by the Group require the approval of the local state price bureau. There is no assurance that the Group will be able to obtain approvals from the relevant state price bureau for an increase in the connection fees, which may in turn materially adversely affect the profits of the Group.

Any increase in gas usage charges exceeding the original approved charge requires the approval of the local state price bureau. There is no assurance that any increases (except for an increase to offset the rise in the Group's purchase price of gas) will be approved.

Dependence on property development of an Operational Location

The Group normally acts as the project manager for the laying of customers' pipeline in a property development project and the Group receives connection fees in stages based on the percentage-of-completion of pipeline construction work.

Property development projects may be materially adversely affected by a number of factors, including shortage of equipment or materials, price fluctuations, bad weather, natural disasters, accidents, downturns in the property market, operational conditions and other unforeseeable situations or matters. Should any of these risks occur, the completion of the whole or part of the property development project may be postponed and consequently the receipt of the progress payment of connection fees by the Group may be delayed. However, there will not be any compensation in the connection fees to be received as a result of such delay.

RISK FACTORS

Reliance on the suppliers of natural gas

Natural gas, the primary raw material purchased by the Group, accounted for 35.5%, 25.9% and 15.7% of total purchases for each of the three financial years ended 31 December 2001, respectively. At present, the Group purchases natural gas primarily from three PRC national oil and gas exploration and production companies pursuant to gas purchase agreements with terms ranging from one to 15 years. There can be no assurance that the Group will be able to obtain natural gas from suppliers on terms similar to the current ones or without material interruption. If natural gas cannot be purchased by the Group on schedule or on terms acceptable to the Group, the Group's business and profitability may be materially adversely affected.

Properties in the PRC without land use right certificates and/or building ownership certificates

As at 28 February 2002, the Group had a total of 12 processing stations in the PRC, all of which are in operation. A processing station comprises of both land and building. Of these 12 processing stations, the Group does not hold (i) both land use right certificates and building ownership certificates in respect of three processing stations (being the processing stations of Jingchang Xinao, Qingdao Xinao and Zhucheng Xinao); (ii) building ownership certificate in respect of a processing station of Jinggu Xinao and (iii) land use right certificate in respect of a processing station of Xincheng Xinao. The Group does not hold both land use right certificates and building ownership certificate in respect of an office building of Jinggu Xinao. The Group is in the process of applying for land use right certificates and building ownership certificates for these processing stations and office building. As at 31 December 2001, the total net book value of the processing stations and office building without land use right certificates and/or building ownership certificates was approximately RMB13.0 million, representing approximately 11.8% of the net book value of the Group's land and building of approximately RMB110.0 million as at 31 December 2001 and approximately 1.6% of the adjusted net tangible assets of the Group of approximately RMB797.2 million. No revaluation surplus or deficit in respect of the land appertaining to any processing station or office building without land use right certificate and/or building ownership certificate has been included in the pro forma statement of adjusted net tangible assets of the Group as set out in the section headed "Financial information – Adjusted net tangible assets" in this document. In the event that the Group is not able to obtain any land use right certificates and/or building ownership certificates for these processing stations and office building, the Group's result may be adversely affected.

Limited insurance coverage

As natural gas is an inherently flammable and explosive substance, the Group has implemented strict safety measures for the operation and maintenance of its facilities. However, the Group cannot guarantee that industry-related accidents will not happen in the future. Significant operational hazards and natural disasters may cause interruptions in the Group's operations that could have a material adverse impact on the financial condition of the Group.

The Group has obtained insurance for certain fixed assets (including the pipelines owned by the Group) with net book value of approximately RMB110,986,000 as at 28 February 2002 that the Group considers to be subject to significant operating risks. The Group has obtained insurance with maximum coverage being RMB111,061,000.

The Group has also taken out third party liability insurance policies covering (i) the loss of life or property of third parties arising out of any accident that may occur at processing stations of the Group (with maximum coverage being RMB21,530,000), and (ii) the loss of life of staff arising out of the business operations (with maximum coverage being RMB17,040,000). However, the Group has not taken out an insurance policy for any interruption in the business of the Group.

RISK FACTORS

A successful claim made against the Group that is not covered by any of the Group's insurance policies or is in excess of its insurance coverage could have a material adverse effect on the Group's business and financial position.

Environmental liability

The Group's operation is subject to the PRC environmental protection laws and regulations which impose fines for violations of laws, regulations or decrees and provide for the shutdown by the central, provisional or municipal governments of any facility not in compliance with governmental orders requiring the cessation or cure of certain activities causing environmental damage. Since natural gas is an environmentally friendly form of fuel, the Group has not adopted any special environmental protection measures other than the measures taken in the ordinary course of business by companies in the industry. Future changes in the PRC environmental protection laws and regulations could have a material adverse effect on the Group's business and financial position.

Risks of investing in enterprises in the PRC

The Group has, and may have, interests in many joint ventures engaging in the piped gas business in the PRC. Such joint ventures may involve special risks, including the possibility that the joint venture partner may (i) have economic or business objectives that are inconsistent with those of the Group; (ii) experience financial difficulties; or (iii) be unable or unwilling to fulfil its obligations under the joint venture contracts. Although the Company has majority shareholdings in, and control over, the board of most of its existing joint ventures, certain important resolutions of these joint ventures, including (i) the amendment to articles of association; (ii) the termination and dissolution of the joint ventures; (iii) the transfer of any interests in the joint ventures; or (iv) the merger of the joint ventures with other economic entities, must be passed by unanimous approval of the joint venture partners.

According to the Catalogue for the Guidance of Foreign Investment Industries (外商投資行業指導目錄) approved by the State Council on 4 March 2002 and promulgated on 1 April 2002 and the advice from the Company's PRC legal adviser, the business of the Group, being the provision of piped gas to selected locations within a city (such as economic development zones and independent residential districts and counties surrounding a city), does not contravene the relevant PRC laws and regulations. The Directors are of the view that the business of the Group is in line with national policy and that local governments are highly supportive of the business of the Group. This is evidenced by the fact that the establishment and the business of the Project Companies have been approved by the relevant local foreign trade and economic co-operation departments. **In the event the relevant approval in respect of the establishment of new Project Company is not granted, the Group's existing expansion plans and strategies may have to be revised and the operating results, prospects and financial condition of the Group may be materially adversely affected.**

Holding company risks

The Company's profits are derived partially from its Sino-foreign joint ventures, which have been established in the PRC. Profits available for distribution to the Shareholders are conditional upon profits being available for distribution to the Company by these joint ventures. Dividends to be declared will be based on the profits of these joint ventures determined pursuant to generally accepted accounting principles in the PRC or Hong Kong (whichever results in a lower profit

RISK FACTORS

calculation). In addition, pursuant to pertinent PRC laws and regulations on finance, profits available for distribution shall be determined after allocation to the statutory reserve funds. For further details, please refer to the paragraphs headed “Dividends” and “Distributable reserves” in the section headed “Financial information” in this document. The ability of the joint ventures to make distributions to the Company will be subject to, among other things, the profit recorded in accordance with PRC generally accepted accounting principles, cashflow conditions and the expected future capital requirements of the joint venture.

As initial investment in a gas project is substantial, if the Directors decide to use retained profits to fund the Group’s future development, the amount of profit available for distribution will be reduced. There is no guarantee that dividends will be declared by the Directors and there is no assurance that the current dividend payout ratio will continue in the future.

Reliance on key management

To a significant extent, the Group’s success is built upon the technical expertise and in-depth knowledge of the piped gas supply industry possessed by the executive Directors and certain other key technical and management personnel as set out in the section headed “Directors, senior management and staff” in this document. Each of the executive Directors has entered into a service agreement (as supplemented, where appropriate) with the Group for a fixed term expiring on 29 February 2004 which service agreement may be early terminated by the executive Director giving not less than six months’ notice in writing, such notice not to be given at any time before 1 September 2003. Each of the key technical and management personnel (as referred to in the section headed “Directors, senior management and staff” in this document) has entered into a service agreement with the Group for a fixed term of at least two years which service agreement may be early terminated by him giving not less than three months’ notice in writing. Each of the executive Directors has also undertaken not to divulge or communicate confidential or other information or to engage in a competing business during the term of his appointment as executive Director and for at least two years after the expiry or termination of his appointment thereof. If any of the executive Directors or any of the key technical and management personnel ceases to be involved in the operation of the Group or if any of them fails to observe and perform their obligations under their service agreements, the implementation of the Group’s business strategies may be affected and may lead to a material adverse impact on the operations of the Group.

Future growth and success of the Group will depend to a large extent on its ability to retain or recruit qualified individuals to strengthen its management, operational and research teams. With the growth in business, there may be a lack of sufficient management staff to oversee sales and operating, administrative and financial procedures and controls, which may in turn materially adversely affect the business of the Group.

Changes in favourable taxation treatment

According to the rules and regulations of the PRC on taxation, Sino-foreign joint ventures or wholly owned foreign enterprises with operational period of over 10 years, may after obtaining approval of their applications, first recoup prior years’ retained losses from the first profit-making year (such recoupment may not exceed five consecutive years), and thereafter such companies are exempt from income tax for the first two years after becoming profitable and are subject to a 50% reduction in the rate of profit tax for the following three years.

RISK FACTORS

As at the Latest Practicable Date, the Group holds interests in 12 Sino-foreign equity joint ventures and six wholly owned foreign enterprises which are all currently conducting operations. Langfang Xinao was originally established on 28 March 1993 and its first profit-making year was the financial year ended 31 December 1996. Accordingly, Langfang Xinao was exempted from PRC enterprise income tax for each of the financial years ended 31 December 1996 and 1997 and was then entitled to a 50% reduction in the rate of profit tax for each of the financial years ended 31 December 1998, 1999 and 2000. With effect from 1 January 2001, Langfang Xinao has paid income tax at the normal rate of 30%. As for the other joint ventures and wholly owned foreign enterprises, they will, after obtaining approval from the relevant tax authority, be entitled to favourable taxation treatment from their respective first profit-making year.

Government subsidies amounted to RMB5,180,000 for the two financial years ended 31 December 1999 were received by Langfang Xinao in January 2001. Such subsidies were granted pursuant to a favourable policy adopted by the Finance Department of the Langfang Economic and Technical Development Zone (the "Finance Department") in 1999, calculated in accordance with the amount of tax actually paid (being RMB1,344,000 for 1998 and RMB3,836,000 for 1999) and recorded in the year when the relevant approvals were obtained. Based on such policy, enterprises operating in the Langfang Economic and Technical Development Zone can apply to the Finance Department for a refund of income tax (in the form of government subsidy) for the period from 1995 to 1999. There can be no assurance that such subsidies will be granted to the Group again in the future.

For the financial year ended 31 December 2001, Langfang Xinao applied for and received Government subsidy amounted to RMB4,000,000. Such subsidy was granted by the Finance Department to Langfang Xinao for the purpose of investing in the development of pipeline infrastructure in Langfang Economic and Technical Development Zone and was received in December 2001. There can be no assurance that such subsidies will be granted to the Group again in the future.

In addition, pursuant to relevant tax regulations, Langfang Xinao may be refunded such amount of sales tax which exceeds the amount payable under the Commercial and Industrial Consolidated Tax abolished on 1 January 1994 upon obtaining approval from the tax authority. Sales tax refund amounting to approximately RMB2,656,000 was received in the financial year ended 31 December 1999. Such refund was one-off in nature and, accordingly, there can be no assurance that such refund will occur in the future. In 2001, tax refund of approximately RMB1.4 million was received by Langfang BVI from the Langfang local tax bureau for re-investing the dividends earned from Langfang Xinao in the PRC. There can be no assurance that such refund will be granted in the future.

There can be no assurance that the current taxation allowance (including sales tax refunds) will not be changed in the future. In the event of any change, the profitability of the Group may be materially adversely affected.

Concentration of ownership

As at the Latest Practicable Date, Easywin owns approximately 57% of the issued capital of the Company. As such, Easywin has the ability to reject all matters which are subject to approval of the Shareholders whether by way of ordinary resolution or special resolution (but excluding those from which Easywin must abstain from voting) and, therefore, Easywin has the ability to manage the Company's affairs. Such concentration of ownership may have the effect of delaying,

RISK FACTORS

deferring or preventing a change in control of the Company, impeding a merger, consolidation, takeover or other business combination involving the Company or discouraging a potential acquirer from making a general offer or otherwise attempting to obtain control of the Company, which in turn could have a material adverse effect on the market price of the Shares.

Non-inclusion of a profit forecast for the financial year ending 31 December 2002

The Group's financial year end is at 31 December, and this document is dated 23 April 2002. To prepare a profit forecast of the Group for the financial year ending 31 December 2002 for inclusion into this document, it would require an estimation of the Group's operating results for a period of approximately nine months.

As at the Latest Practicable Date, the Group has interests in a total of 16 Project Companies. Save for Langfang Xinao which has an operational history of about nine years, all of the Group's other Project Companies are in their early stage of development with less than three years of operation and limited track record. During the initial stage of development, the Group is normally engaged in the design of the gas pipeline infrastructure for the gas projects and the construction of the gas pipeline infrastructure. Although the gas pipeline infrastructure is designed to cover the entire Operational Location, the Group's construction programme generally focuses on early gas delivery to areas of concentrated customer demand within an Operational Location, so that gas supply can commence as soon as the essential gas pipeline infrastructure and facilities (such as the processing stations and the intermediate pipelines) are completed. Construction work in an initial target area will gradually extend to cover the whole Operational Location, which typically takes two to five years depending on the size of the project. During the initial stage of development, the Group focuses on marketing to property developers, government departments and organisations and state-owned enterprises as these entities usually enter into master supply contracts with the Group for the connection of gas to all the units within a residential development (new or existing). However, the progress of construction and the signing of supply contracts are subject to a variety of factors which may be outside the control of the Group including, amongst other things, bad weather condition, natural disasters, accidents, economic development and acceptability of end users towards the use of natural gas. Accordingly, such Project Companies cannot provide a concrete basis for the Directors to arrive at an accurate forecast. Furthermore, the Group's results are subject to seasonal factors as bad weather conditions preclude construction work from taking place in the coldest months (being late December to February) and thus most connections are completed by December of each year.

Langfang Xinao has been the main contributor to the Group's turnover during the Track Record Period, accounting for 100%, 79.6% and 45.8% of the Group's turnover in each of the three financial years ended 31 December 2001, respectively. The Directors anticipate that contribution from Langfang Xinao to the Group's turnover will be stable but at a declining trend when compared as a percentage of the Group's turnover as the operation of the other Project Companies progresses. During the Track Record Period, the regular income of the Group has been generated mainly from its provision of gas connection services which accounted for approximately 72.8%, 82.8% and 76.8% of the Group's turnover. Although the Directors expect contribution from gas usage charges will gradually become more significant as the penetration rate at the Operational Locations improves, majority of the Group's turnover are of an one-off nature.

On the above basis, the Directors are of the opinion that it is difficult to assess and project the Group's turnover for such a long period of time with the same level of accuracy and comfort as required for a profit forecast to be disclosed in this document. Consequently, no profit forecast of

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the Group for the financial year ending 31 December 2002 is included in this document. Investors should be aware that there is no assurance that the Group will increase or maintain its historical revenue or profitability and that the historical results of the Group should not, therefore, be used as an indication of its future performance.

Ability to sustain a high profit margin

In each of the three financial years ended 31 December 2001, the Group achieved a gross profit margin of approximately 55.6%, 52.3% and 59.5%, respectively, as well as a net profit margin of approximately 28.5%, 30.6% and 33.0%, respectively. There is no assurance that the Group will be able to sustain its future profit margin at a level as high as that was achieved historically which in turn may lead to a slow down in the profit growth of the Group.

RISKS RELATING TO THE INDUSTRY

Substitute products

Coal gas, LPG and electricity are the main substitutes for natural gas. Ultimate consumers will consider factors such as cost, reliability, convenience and safety when choosing a fuel. Connection fees, gas usage charges and heat content are the major factors affecting customers' choice of fuel. Save for newly built residential apartments which are required to be equipped with gas supply for cooking stoves in most of the Operational Locations in which the Group has established a presence, there is no assurance that existing fuel users will shift to use piped natural gas.

RISKS RELATING TO THE PRC

Since substantially all of the business of the Group is operated in the PRC, the profitability, financial position and prospects of the Group may be affected by the PRC's economic, political and regulatory regime.

Political and economic considerations

The PRC economy is currently evolving from a planned economy into a market-oriented economy. Although the PRC has adopted an open door policy, changes in the policies of the PRC Government regarding the domestic economy (for example, changes affecting foreign exchange rates, inflation, taxation and trade) may have a material effect on the overall economy. The current reforms are unprecedented, produce effects that are unpredictable, and are subject to further refinement and improvement. New political, economic and social developments and considerations may lead the PRC Government to make adjustments to these reform measures. Such amendments and adjustments may not have a favourable effect on the Group's business. Any change, variation or adjustment to the reform measures taken by the PRC Government may have a material adverse effect on the business of the Group.

Changes in laws, regulations and policies

The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little precedential value. In 1979, the PRC began to promulgate a comprehensive system of laws and has since introduced many laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and

RISK FACTORS

regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of new changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Group and its joint ventures. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement involve significant uncertainty.

In the PRC, gas companies operate the piped gas supply business in urban areas under the supervision of a number of government ministries and departments, including the Ministry of Construction (建設部), the Ministry of Labour and Social Security (勞動和社會保障部) and the Ministry of Public Security (公安部). The Group must comply with the relevant requirements of certain regulations, including but not limited to the City Fuel Gas Administration Regulations (《城市燃氣管理辦法》), the Tentative Regulations in relation to the Supervision and Administration of the Safety of Petroleum and Natural Gas Pipelines (《石油天然氣管道安全監督與管理暫行規定》) and the Regulations of the Safety of City Fuel Gas Administration (《城市燃氣安全管理規定》). In addition, the Group must comply with the relevant requirements and policies of local authorities where the Group's projects are situated.

Exclusive rights or rights of first refusal to provide piped gas are granted by local governments pursuant to policies of promoting environmental protection and encouraging the use of natural gas and the construction of natural gas supply facilities.

There can be no assurance that the above regulatory regime and policies (including the granting of exclusive rights or rights of first refusal to supply piped gas in Operational Locations) will not be changed. The Group's operations and profitability may be materially adversely affected if changes that occur are not favourable to the Group.

Changes in foreign exchange regulations

Since 1996, the PRC Government has promulgated various foreign exchange rules, regulations and notices (the "Policies") to raise the convertibility of Renminbi. According to the Policies, a foreign-invested enterprise ("FIE") must open a "current account", a "capital account" and a "foreign debt account" at a bank authorised to trade foreign exchange. Current account items include dividends and other forms of profit distribution to foreign investors in the FIE whereas capital account and foreign debt account items include the foreign currency capital of a FIE, the repayment of the principal amount of foreign currency loans and any payment pursuant to foreign currency guarantees. A FIE may convert Renminbi in the capital account into any foreign currency at any bank authorised for foreign exchange transactions with the prior approval of the State Administration for Foreign Exchange ("SAFE").

The income and expenditures of the Group are denominated in Renminbi. At present, Renminbi cannot be freely converted into other currencies. According to the Policies, upon producing the board resolution on the authorisation of the distribution of profits or dividends, the tax payment receipt, the FIE foreign exchange registration certificate, capital verification report, auditors' report and other documents required by the administrative authorities of foreign exchange, the Group may purchase the foreign exchange required for the distribution from a designated authorised bank. The Group cannot guarantee that the Policies will not be withdrawn or amended.

RISK FACTORS

The Group continues to have certain requirements for foreign currency, including foreign currency denominated loans and purchases of imported equipment and materials. Repayment of the principal and interest of loans denominated in foreign currency shall be approved by SAFE in advance. Such approval requirement could affect the Group's ability to obtain foreign exchange through debt financing or to obtain foreign exchange for capital expenditure.

In addition, according to the current foreign exchange control system, there can be no assurance that sufficient foreign exchange can be obtained pursuant to a specific exchange rate in order to satisfy the Group's entire needs. A shortage in the foreign exchange may prevent the Company from obtaining sufficient currency to pay dividends or limit its ability to satisfy its needs for foreign exchange.

Currency and exchange fluctuations

The value of Renminbi is subject to changes in the PRC Government's policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of Renminbi to US dollars has generally been stable, and Renminbi has appreciated slightly against the US dollar. However, given the economic instability and currency fluctuations in Asia in recent years, the Directors cannot give any assurance that the value of Renminbi will continue to remain stable against the US dollar or any other foreign currency.

Any devaluation of Renminbi may adversely affect the value of, and dividends payable on, the Shares in foreign currency terms since the Group receives its revenues and expresses its profits in Renminbi. Results of operations and the financial condition of the Group may also be affected by changes in the value of certain currencies other than Renminbi in which the Group's obligations are denominated. In particular, a devaluation of the Renminbi is likely to increase the portion of the Group's cash flow required to satisfy its foreign currency-denominated obligations. There can be no assurance of the stability of the exchange rate of Renminbi in the future.

INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

DIRECTORS' ASSUMPTION OF RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT

This document includes particulars given in compliance with the Securities (Stock Exchange Listing) Rules 1989 of Hong Kong (as amended) and the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this document misleading.

This document is published in connection with the Introduction. It may not be used for any other purpose and, in particular, no person is authorised to use or reproduce this document or any part thereof in connection with any offering, or invitation to the offer, of the Shares or other securities of the Company.

APPLICATION FOR LISTING ON THE MAIN BOARD

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any options which were granted under the Share Option Scheme and which may be granted under the Proposed Share Option Scheme. Except that prior to the Introduction, the Shares are listed on GEM, no part of the Company's share or loan capital is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing or permission to deal in any of its securities on any other stock exchange.

SHARES WILL CONTINUE TO BE ELIGIBLE FOR ADMISSION INTO CCASS

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 10 May 2001, the date on which the Shares were listed on GEM. Subject to the granting of the listing of, and permission to deal in, the Shares on the Main Board by the Stock Exchange and the continue compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

Necessary arrangements have been made with HKSCC for the Shares in issue and the Shares which may fall to be issued upon the exercise of the options which were granted under the Share Option Scheme and which may be granted under the Proposed Share Option Scheme to continue to be accepted as eligible securities of CCASS.

STAMP DUTY

Dealings in Shares registered on the register of members kept by the Company's Hong Kong branch share registrar will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. None of the Company, the Sponsor, any of their respective Directors, agents or advisers or any other party involved in the Introduction accepts responsibility for any tax effects on, or liabilities of, holders of the Shares resulting from the holding of or dealing in Shares.

INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

UNDERTAKINGS

Easywin, Mr. Wang and Ms. Zhao, being the controlling Shareholders (the “Controlling Shareholders”) (as defined in the Listing Rules) holding approximately 57% of the issued share capital of the Company as at the Latest Practicable Date have undertaken to the Company and the Stock Exchange that, save for any deemed disposal by the Controlling Shareholders as a result of the exercise of any options granted under the Share Option Scheme and the Proposed Share Option Scheme, they shall not:

- (i) in the period of six months from the date on which dealings in the Shares commence on the Main Board, dispose of, and shall procure that the registered holder shall not dispose of, any of those Shares in respect of which they are the beneficial owners; and
- (ii) in the period of six months commencing from the date on which the period referred to in paragraph (i) above expires, disposal of or permit the registered holder to dispose of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal the Controlling Shareholders would cease to be a controlling shareholder of the Company (as defined in the Listing Rules).

The Controlling Shareholders have also undertaken to the Company and the Stock Exchange that, within the period of 12 months from the date on which dealings in the Shares commence on the Main Board, they shall:

- (i) immediately inform the Company of any pledge/charge of Shares beneficially owned by them together with the number of Shares so pledged/charged when they make such pledges/charges; and
- (ii) immediately inform the Company when they receive indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of.

The Company has agreed that it will inform the Stock Exchange as soon as it has been informed of any matters relating to the pledge/charge mentioned above by the Controlling Shareholders, and will disclose such matters by way of a press notice in newspaper as soon as possible in accordance with the requirements of the Listing Rules.

CONDITIONS OF THE INTRODUCTION

The Introduction is subject to the fulfilment of the conditions that, among other things, the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any options which were granted under the Share Option Scheme and which may be granted under the Proposed Share Option Scheme on the Main Board.

The Shares are currently listed on GEM. Immediately prior to the Introduction, the listing of the Shares on GEM will be withdrawn in accordance with the GEM Listing Rules. In this connection, the Extraordinary General Meeting will be held on 21 May 2002 to approve, amongst other things, the withdrawal of the listing of the Shares on GEM. The Directors expect that dealings in the Shares on the Main Board will commence on or about 3 June 2002.

DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Wang Yusuo	No. 18, Huachun Lane Xinhua Road Langfang City Hebei Province The PRC	Chinese
Mr. Yang Yu	Room 601, Unit 2, Block 11 6 Guandao Bureau Xin Liu District Langfang City Hebei Province The PRC	Chinese
Mr. Zhao Jinfeng	Room 302, Unit 4, Block 2 Jinhua Lane Langfang City Hebei Province The PRC	Chinese
Mr. Qiao Limin	Room 501, Unit 4 2 Jinhua Lane Chaoyang Small District Langfang City Hebei Province The PRC	Chinese
Mr. Jin Yongsheng	Room 502, Unit 1, Block 1 Jincheng Lane Langfang City Hebei Province The PRC	Chinese
Mr. Yu Jianchao	15C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	Chinese
Mr. Cheung Yip Sang	Flat B, 37th Floor Block 8, Park Avenue Mongkok Kowloon Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

Name	Address	Nationality
Mr. Cheng Chak Ngok	Flat H, 9th Floor Block 2, Central Park Mongkok Kowloon Hong Kong	Chinese
<i>Non-executive Director</i>		
Ms. Zhao Baoju	No. 18, Huachun Lane Xinhua Road Langfang City Hebei Province The PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. Wang Guangtian	Flat B, 7th Floor Fuji Building 381-383 Lockhart Road Wanchai Hong Kong	Chinese
Mr. Xu Liang	36 Sihua Lane Shaoxing Road Hexi District Tianjin City The PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

PARTIES INVOLVED IN THE INTRODUCTION

Sponsor	N M Rothschild & Sons (Hong Kong) Limited 16th Floor, Alexandra House 16-20 Chater Road Central Hong Kong
Legal advisers to the Company	<i>As to Hong Kong law:</i> Woo, Kwan, Lee & Lo 27th Floor, Jardine House 1 Connaught Place Central Hong Kong <i>As to PRC law:</i> Commerce & Finance Law Offices No. 714 Huapu International Plaza 19 Chaowai Avenue Chaoyang District Beijing 100020 The PRC <i>As to Cayman Islands law:</i> Maples and Calder Asia 1504, One International Finance Centre 1 Harbour View Street Central Hong Kong
Auditors and reporting accountants	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 26th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Professional surveyors and valuers	Chesterton Petty Limited 16th Floor, CITIC Tower 1 Tim Mei Avenue Central Hong Kong

CORPORATE INFORMATION

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	Room 4202 Far East Finance Centre 16 Harcourt Road Admiralty Hong Kong
Head office in the PRC	Huaxiang Road Langfang Economic and Technical Development Zone Langfang City Hebei Province The PRC
Company secretary	Mr. Cheng Chak Ngok, <i>AHKSA, ACCA, ACS, ACIS</i>
Authorised representatives	Mr. Yang Yu Mr. Cheng Chak Ngok
Members of the audit committee	Mr. Wang Guangtian Mr. Xu Liang Mr. Yu Jianchao
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	Central Registration Hong Kong Limited Room 1901-5, 19th Floor, Hopewell Centre 185 Queen's Road East Wanchai Hong Kong

CORPORATE INFORMATION

Principal bankers

Agricultural Bank of China
Langfang Development Zone Branch
Huaxiang Road
Langfang Economic and Technical Development Zone
Langfang City
Hebei Province
The PRC

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

Bank of China (Hong Kong)
Ground Floor
131-133 King's Road
North Point
Hong Kong

Fleet National Bank
33rd Floor, Jardine House
1 Connaught Place
Central
Hong Kong

INDUSTRY OVERVIEW

The information contained in this section has been extracted from publicly available documents that have not been independently verified by the Company, the Sponsor or any of their respective advisers or affiliates in connection with the Introduction.

BACKGROUND

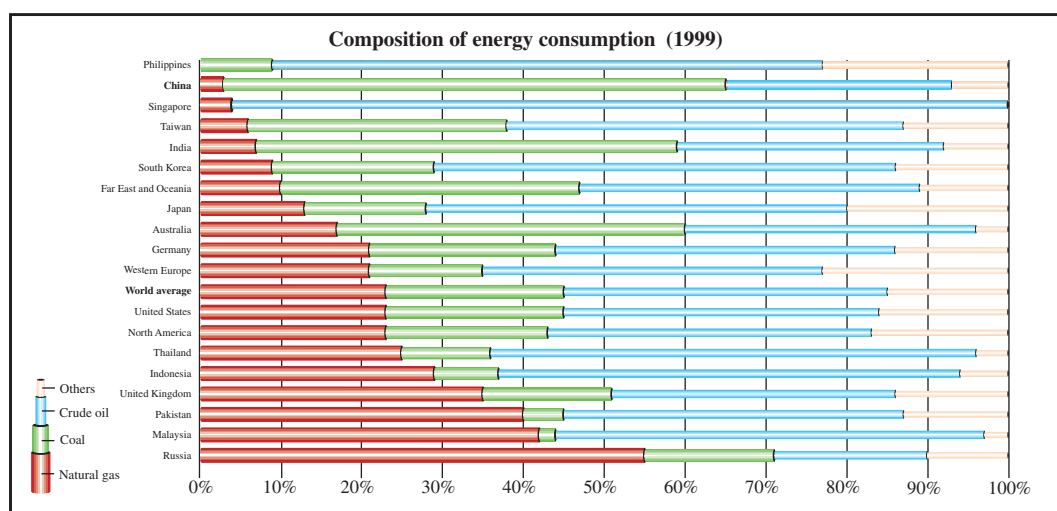
For the past decade, the PRC has experienced rapid economic growth due to the implementation of economic reform and the adoption of an open door policy. The GDP (based on current prices) has grown from RMB1,855 billion in 1990 to RMB8,940 billion in 2000 (Source: China Statistical Yearbook, 2001). On an inflation adjusted basis, the real GDP (based on comparable prices) grew by a compound annual growth rate of 10.1%. This trend of economic growth is expected to continue and it is forecasted that the annual GDP growth will exceed 7% for the next five years, especially in view of the PRC's accession to the World Trade Organisation in December 2001. Significant development of energy related infrastructure is essential if the PRC is to sustain its rapid economic growth.

ENERGY MARKET IN THE PRC

Although the PRC is the world's second largest energy consumer, its energy consumption per capita is lower than the per capita level in most other countries. This is largely due to the fact that a relatively large portion of the population in the PRC live in rural areas where access to energy sources is limited and the energy supply infrastructure in the PRC as a whole is still relatively underdeveloped. Energy consumption is concentrated in the urban areas where there is greater access to energy sources.

The PRC is the most populous country in the world, with a population of approximately 1.27 billion at the end of 2000. Between 1990 and 2000, the population in its urban areas grew at an average rate of 5.2% per annum and on the contrary the population in its rural areas decreased by an average rate of approximately 0.4% (Source: China Statistical Yearbook, 2001). With the development of energy related infrastructure and urbanisation of population, the accessibility of energy by the general population is expected to increase. A combination of the above factors is expected to lead to an increase in both total actual energy consumption for the nation and energy consumption per capita.

The following graph illustrates the composition of energy consumption in the PRC, as compared to various other countries in the world:



Source: Energy Information Administration, US Department of Energy

INDUSTRY OVERVIEW

In 1999, coal, crude oil, hydro-electricity and natural gas accounted for approximately 68.0%, 23.2%, 6.6% and 2.2%, respectively, of the PRC's total energy consumption and the consumption of these primary energy in 2000 was approximately 67.0%, 23.6%, 6.9% and 2.5% of the total energy consumption respectively (Source: China Statistical Yearbook, 2000 and 2001).

The PRC has historically relied heavily on coal as its primary energy source. Coal represented approximately 68.0% of the PRC's total energy consumption in 1999 and approximately 67.0% in 2000. This greatly exceeded the world's average coal consumption, which was approximately 22.2% in 1999 (Source: Energy Information Administration, US Department of Energy).

Over the past decade, air pollution and other damages to the environment caused by coal combustion have caused serious concerns in many countries around the world and resulted in a global trend to reduce coal usage. The continued heavy reliance on coal in the PRC has led to serious pollution problems in various areas. In an air pollution study conducted by the World Health Organisation in 1998, seven of the 10 most polluted cities in the world were located in the PRC. Recognising the serious problems caused by coal usage, the PRC Government has planned to gradually reduce coal usage by substituting coal with other more environmentally friendly forms of fuel such as natural gas.

The use of crude oil as a percentage of the PRC's total energy consumption was similar to that of other countries and the world's average in 1999. On the other hand, the use of natural gas as a percentage of the PRC's total energy consumption was approximately 2.2% in 1999 and 2.5% in 2000, which was significantly lower than the world average of approximately 22.8% in 1999 (Source: Energy Information Administration, US Department of Energy). As the natural gas industry in the PRC is in its infant stage of development and natural gas is one of the most environmentally friendly and economical energy sources, the Directors believe that there is enormous growth potential in the near future for the natural gas industry.

NATURAL GAS

In recent years, global warming and erratic weather patterns have attracted the world's attention to the environmental problems caused by air pollution. As a result, many countries have decided to devote an increasing amount of resources to environmental protection. Natural gas is often referred to as the cleanest fossil fuel available. The pollutants emitted by natural gas are only a fraction of those emitted by most other energy sources such as coal and crude oil. Therefore, natural gas is regarded as a preferred energy source for the future and an environmentally friendly alternative to other fossil fuels. Some of the more desirable qualities of natural gas can be summarised as follows:

- | | |
|------------|--|
| Clean | Natural gas is one of the cleanest fossil fuels available. When burnt, the principal products are carbon dioxide and water vapour. Combustion results in virtually no atmospheric emissions of sulphur dioxide or small particulate matter, and far lower emissions of harmful elements when compared to combustion of other fossil fuels, such as coal and crude oil. |
| Economical | On a heat content adjusted basis, the price of natural gas is cheaper than most other forms of fuel. For example, natural gas is approximately 34% to 88% cheaper than coal gas, approximately 38% to 52% cheaper than LPG and approximately 63% to 80% cheaper than electricity. |

INDUSTRY OVERVIEW

Safe	Natural gas is not explosive on its own, it can only be burnt after mixing with oxygen resulting in the oxygen content of the mixture exceeding a certain percentage. Furthermore, natural gas does not contain carbon monoxide and other toxic gases, thus it is not harmful when inhaled in small quantities. Unlike bottled LPG, natural gas is delivered to end-users through pipelines, hence the danger associated with fuel storage is eliminated.
Efficient	Natural gas has a higher heat content compared to other forms of fossil fuel. Under the same pressure, combustion of an equal volume of natural gas results in a higher heat content than most other forms of fossil fuel.
Convenient	As natural gas is delivered to end users using pipelines, there is no need to store or replenish the fuel on-site, as is required for other fuel sources such as bottled LPG. Furthermore, for industrial users, gas units tend to be less complex and easier to operate and maintain than equipment powered by coal and other fossil fuels. In addition, there is no solid waste or ash requiring disposal following the consumption of natural gas.

NATURAL GAS IN THE PRC

The principal method for transportation of natural gas from source to end users within the PRC is by means of pipelines. In order to develop the natural gas industry, it is essential that the necessary pipeline infrastructure be in place so that natural gas is easily accessible for distribution to end users. The backbone of the gas delivery system in the PRC consists of long distance pipelines which are used to transport purified natural gas from the gas fields to major consumption areas. The long distance pipelines are owned and operated by national oil and gas exploration and production companies.

The PRC Government has re-affirmed its commitment to making significant investments in the expansion of the natural gas pipeline infrastructure over the next decade in its tenth five-year plan for 2001 to 2005. One of the PRC Government's major projects is the construction of long distance pipelines for the transportation of natural gas from the reserve-rich western provinces of the PRC to the more affluent provinces in the east referred to as 西氣東輸 ("West to East Pipelines"). Construction of the approximately 4,200 km West to East Pipelines has been approved by the State Council and is expected to be completed by 2004.

In addition to its investment in the natural gas pipeline infrastructure, the PRC Government is encouraging the use of natural gas. In most locations where natural gas supply is available, the local governments have promulgated rules requiring that all new residential buildings to incorporate piped gas connections in their designs as a condition to the issuance of the construction or occupational permit. Furthermore, in an effort to control pollution problems, there are a growing number of cities where the local governments have issued legislation to gradually replace coal with other cleaner energy sources such as natural gas.

The average compound growth rate of natural gas consumption in the PRC was 4.4% per annum for the years 1990 through 2000. Natural gas consumption as a percentage of total energy consumption in the PRC increased slightly from 2.1% to 2.5% over the same period.

INDUSTRY OVERVIEW

At the end of 2000, a total of 33,653 km of natural gas long distance pipelines, intermediate pipelines and main pipelines had been built in the PRC and the population that had access to piped natural gas was approximately 25.8 million. According to forecasts made by the Petroleum Economist, natural gas usage as a percentage of total energy consumption in the PRC will increase to approximately 9% to 10% in 2010, representing an increase of up to approximately 300% from 2.5% in 2000. Coal consumption as a percentage of total energy consumption is projected to decrease in the future. The natural gas industry is expected to experience significantly higher growth relative to other energy sectors.

The following map shows long distance pipelines constructed or currently planned to be constructed in the PRC:



Source: 《中國城市煤氣協會》(Chinese Gas Association)

Reserves and production

According to the 第二輪油氣評估結果(Second Oil and Gas Reserve Assessment) carried out by the 地質礦產資源部門(Geological and Mineral Resources Department), natural gas reserves in the PRC are estimated to be approximately 38,000 billion cubic metres with approximately 30,000 billion cubic metres onshore and 8,000 billion cubic metres offshore. These estimated reserves are sufficient for 74 to 120 years of PRC consumption based on the current consumption level. However, since the energy reserves in the PRC is underexplored and has substantial coal reserves (with coal-bed methane), it is likely that reserves are much higher than currently estimated, with the majority of the reserves lying in the far western region.

Natural gas reserves in the PRC are mainly owned by PetroChina Company Limited, China National Offshore Oil Corporation and China Petrochemical Group Corporation.

INDUSTRY OVERVIEW

Pricing of natural gas in the PRC

The wholesale price of natural gas payable by distribution companies to the suppliers of natural gas is comprised of three components, namely the wellhead price, the pipeline transportation tariff and the purification fee. The wellhead price is fixed by the State Development Planning Commission, and is currently set at RMB0.90 per cubic metre with a 10% allowance for upward or downward adjustments for negotiation between suppliers and distribution companies. The pipeline transmission tariffs are determined by reference to the investment costs of the relevant long distance pipeline, depreciation, wear and tear and the distance of delivery. The purification fee is based on the actual purification costs of the suppliers. Both the pipeline transmission tariffs and the purification fee must also be approved by the State Development Planning Commission.

For comparison purposes, the table below sets out the pricing of various energy sources in the PRC in 2001 on an energy adjusted basis:

	Price range (RMB)	Price per heat content (RMB per gigajoule)
Natural gas	0.7 – 3.0 per m³	19.3 – 79.5
Coal	125 – 430 per tonne	4.9 – 16.9
Coal gas	0.5 – 11.3 per m ³	29.4 – 661.8
LPG	1,830 – 5,770 per tonne	40.7 – 128.2
Light oil	3,350 – 4,697 per tonne	79.8 – 111.8
Electricity	0.34 – 0.78 per kilowatt hour	94.4 – 216.7

Source: 重慶價格信息網(Chongqing Price Net) and安徽省經貿信息網(the website of Anhui Economic and Trade Committee)

On a heat content adjusted basis, the price of natural gas is approximately 34% to 88% cheaper than coal gas, approximately 38% to 52% cheaper than LPG and approximately 63% to 80% cheaper than electricity. The Directors believe that the low price, high heat content and low emission characteristics of natural gas are some of the reasons that have led to the PRC Government's determination to increase its usage.

Distribution companies are required to submit price proposals on connection fees and gas usage charges to the local state price bureau for final approval. Future upward adjustments are also subject to approval of the local state price bureau. For further details, please refer to the paragraph headed "The Group's business – Pricing" in this document.

Regulatory framework for natural gas distribution companies

In the PRC, entities engaged in the gas distribution business must obtain an operational permit from 建設部(Ministry of Construction) before commencement of business. In addition, a construction permit must be obtained if such gas distribution company also engages in the construction of facilities and pipelines. In both cases, the Ministry of Construction will review the qualifications and experience of the directors and technical staff of the distribution company and consider whether the distribution company is capable of fulfilling the operational and construction standards (as the case may be) required by the Ministry of Construction.

INDUSTRY OVERVIEW

According to the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) approved by the State Council on 4 March 2002 and promulgated on 1 April 2002 and the advice from the Company's PRC legal adviser, the Group's business is not in contravention of the PRC legislation and regulations. In addition, the Directors believe that as the services provided by the Group contribute to environmental protection, they are consistent with national policy and, therefore, local governments are highly supportive of the business of the Group. This is evidenced by the approvals granted by the relevant local foreign trade and economic co-operation departments, the authority overseeing the implementation of the Catalogue for the Guidance of Foreign Investment Industries in respect of the establishment of the Existing Project Companies and their relevant businesses.

FUTURE DEVELOPMENT OF THE NATURAL GAS INDUSTRY IN THE PRC

In the future, the PRC's average annual gas consumption is estimated to reach 50 and 100 billion cubic metres during the periods 2006 to 2010 and 2011 to 2020, respectively.

On the national level, the PRC Government has the following plans in relation to the development of the natural gas industry and the promotion of the downstream use of natural gas:

- Completion of the approximately 4,200 km West to East Pipelines by 2004, which is estimated to have a capacity to supply approximately 20 billion cubic metres of gas per annum.
- Feasibility studies and discussions with the Government of the Russian Federation regarding the importation of gas from Russia. Should the outcome be positive, the supply of gas will commence in 2005. Under the proposed plan, the long distance pipelines are estimated to be approximately 4,000 km in length with 2,400 km located within the PRC. Annual supplies of gas could reach 20 to 25 billion cubic metres.
- Construction of LNG terminals proposed for the cities of Fuzhou, Guangzhou, Qingdao and Shanghai. It is expected that the importation of LNG will reach three million tonnes by 2010 and 10 million to 15 million tonnes by 2020.

In Shandong Province, where the Group currently has seven Operational Locations, the provincial government has formulated policies to increase the penetration rate of natural gas with a view to improve the current energy consumption structure and the air quality in Shandong Province. In addition, each of PetroChina Company Limited, China National Offshore Oil Corporation and China Petrochemical Group Corporation have developed plans to build long distance pipelines to supply natural gas to the Shandong Province, in particular:

- PetroChina Company Limited proposes to build a long distance pipeline between 滄州 (Cangzhou) and Qingdao passing 淄博 (Zibo). The construction of this pipeline is expected to be completed before 2003.
- China National Offshore Oil Corporation has been developing the natural gas reserves in Bohai Bay and plans to build a long distance pipeline connecting Yantai and Qingdao from 龍口 (Longkou).

INDUSTRY OVERVIEW

- China Petrochemical Group Corporation has plans to build two long distance pipelines, one of which will start from Zhongyuan Oil Field at 濮陽 (Puyang) supplying natural gas to 濟南 (Jinan), 濰博 (Zibo) and end at Qingdao and the other one will also start at Puyang and end at 萊陽 (Laiyang). The construction of these pipelines are expected to be completed by 2003 and 2005 respectively and once completed they will be able to transport four billion cubic metres of natural gas to the Shandong Province per year.

It is expected that the above long distance pipelines, once completed will be able to provide a stable supply of natural gas to Shandong Province.

THE GROUP'S BUSINESS

HISTORY AND DEVELOPMENT

The Group was founded by Mr. Wang who has extensive experience and in-depth knowledge of the gas business in the PRC. Mr. Wang first invested in the gas business in 1985 when he began operating a LPG processing station in Bazhou, Hebei Province, the PRC.

Recognising that the use of natural gas would gradually become an important source of fuel because it is clean, inexpensive and safe when compared to other sources of fuel, Mr. Wang and Ms. Zhao formed Langfang Xinao in 1993 to invest in the construction of gas pipeline infrastructure for the sale and distribution of piped natural gas in the Langfang Economic and Technical Development Zone, the first location in the Hebei Province with piped natural gas supply. In 1994, the business of Langfang Xinao was expanded to include the supply of piped natural gas to the Langfang city centre.

In 1998, the PRC Government began to actively promote the use of natural gas as an environmentally friendly, economical and efficient source of fuel and encourage privately-owned enterprises to participate in gas projects. Mr. Wang and Ms. Zhao believed this to be an excellent opportunity to expand the business and began to actively explore and seek investment opportunities in neighbouring locations.

The Company was incorporated in the Cayman Islands on 20 July 2000. Following completion of the Reorganisation, the Company became the holding company of the Group. The principal business of the Group is the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped gas in the PRC. The Group's business activities also consist of the sale of gas appliances and equipment, the production of stored value card gas metres and the provision of repair, maintenance and other services in connection with gas supply. As at the Latest Practicable Date, all of the 16 Project Companies were in operation. The Group is also actively exploring new business opportunities.

Following the listing of the Shares on GEM on 10 May 2001, the Company received numerous awards from renowned financial publishers including:

- “Best Small Cap IPO” for 2001 by FinanceAsia;
- “The 200 Best Small Companies” by Forbes Global;
- “2001 Top 500 Chinese Enterprises in the World” by Yazhou Zhoukan (Asia Weekly*);
- “Overall Best Managed Company 2001” in the PRC by Asiamoney; and
- “Best Small Companies” in the PRC by Asiamoney.

THE GROUP'S BUSINESS

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

In the Prospectus, certain business objectives of the Group were stated. Set out below is a comparison of the Group's actual business progress for the period from 23 April 2001 and up to 31 December 2001 and its business objectives and strategies as set out in the Prospectus.

	Target as stated in the Prospectus	Actual business progress
<i>Sales and operations</i>		
• Number of new residential household connections	53,490	39,827
• Additional installed designed daily capacity for commercial and industrial customers (m ³ /day)	72,615	120,833
• Residential gas consumption ('000 m ³)	9,178	10,839
• Commercial/industrial gas consumption ('000 m ³)	14,921	14,755
• Pipelines [#] to be constructed (km)	488	515
• New processing stations to be constructed	4	2

Pipelines include the intermediate, main and branch pipelines

Research and development

• Develop internal capability to manufacture stored value card gas metres	To commence supply in the second half of 2001	Commenced supply in June 2001
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Reasons for material differences between planned business objectives and actual business progress up to 31 December 2001 are set out below.

(i) Sales and operations

The shortfall in the number of new residential household connections and the number of new processing stations construction was due to the unexpected delay in the establishment of Jingzhou Xinao. As at the Latest Practicable Date, Jingzhou Xinao has not yet been established as the Group is in the process of renegotiating with its joint venture partner with a view to seeking more favourable terms for the Group. Once the terms are finalised, the Group will proceed to establishing Jingzhou Xinao which is subject only to obtain approval from the relevant foreign trade and economic co-operation department in Jingzhou, the PRC. Due to the foregoing, the Group has allocated its original resources assigned for Jingzhou Xinao to focus on marketing to commercial and industrial customers. As a result of an effective marketing campaign and the commercial and industrial customers' recognition of significant cost savings that can be achieved through the use of piped gas, the Group has successfully achieved its connection targets ahead of schedule by approximately 66.4%.

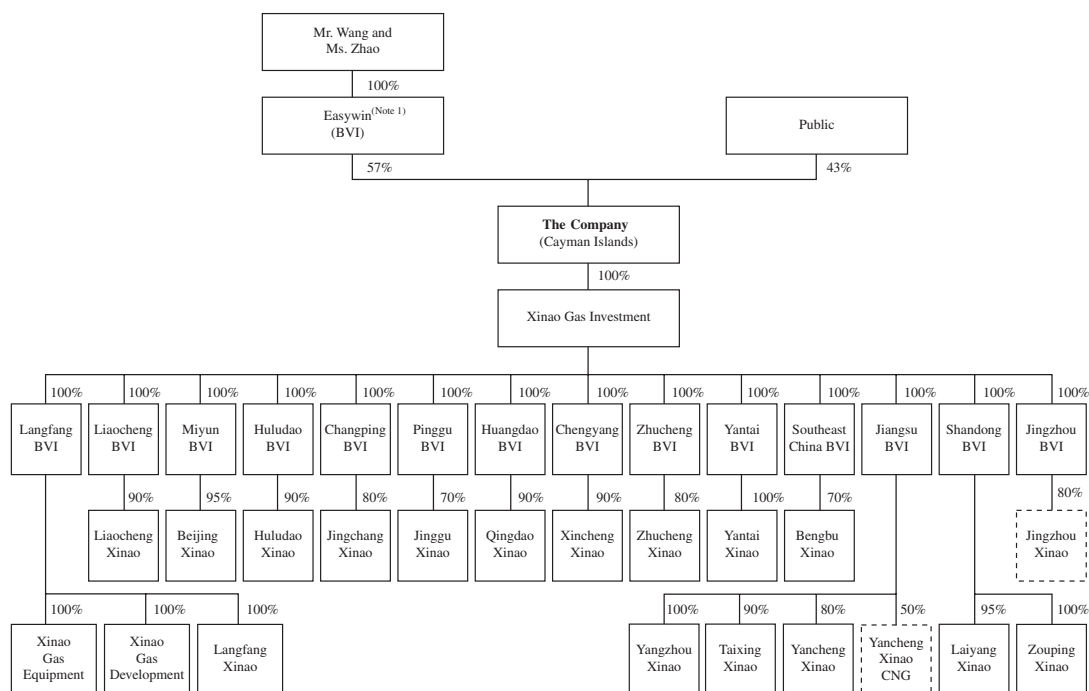
(ii) Research and development

The Group has speeded up its development of stored value card gas metres in order to take advantage of the cost savings that can be brought to the Group. Installation of production facilities with an annual capacity of 100,000 metres was completed in June 2001.

THE GROUP'S BUSINESS

CORPORATE STRUCTURE

The diagram below illustrates the existing corporate structure of the Group and its controlling entities:



[- -] denotes company to be established

Notes:

- (1) Easywin is equally owned by Mr. Wang and Ms. Zhao.
- (2) The corporate structure chart above only includes those subsidiaries of the Group with active operational activities.

THE GAS DELIVERY PROCESS

The natural gas delivery process can be broadly categorised into three segments: production, transmission and distribution. A general description of the gas delivery process is set out below.

Production involves underground exploration, drilling, extraction and purification of natural gas. After extraction from a gas well, natural gas is transmitted to nearby refineries for removal of water content and impurities. The natural gas is then transported from the refineries via the long distance pipelines under super high pressure so that natural gas may be supplied to a large number of locations near such pipelines at high speed. The long distance pipelines are owned and operated by PRC oil and gas exploration and production companies or pipeline operators.

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Distribution companies (such as the Group) distribute natural gas to the end users and often own the gas pipeline infrastructure of an Operational Location (including the intermediate pipelines, the processing stations, the main pipelines and the branch pipelines). A distribution company purchases natural gas from oil and gas exploration and production companies. The distribution company determines the method of delivering natural gas to its desired destination after taking into account factors such as the distance between the collection and delivery points and the expected demand for gas from the relevant gas supply locations.

The collection of CNG and LNG involves the delivery of CNG or LNG by CNG or LNG truck to a processing station from gas wells or stations located along the relevant long distance pipeline. If an intermediate pipeline is constructed, the intermediate pipeline transports the natural gas under high pressure to a processing station. Such processing station may contain CNG or LNG pressure regulating facilities which will depressurise the CNG or LNG to natural gas under medium pressure and/or natural gas pressure regulating facilities to reduce the pressure of natural gas from high pressure to medium pressure, before transmitting the natural gas to a main pipeline.

LPG, which is sometimes used as a backup gas supply, is purchased primarily from refineries. Processing stations may also contain LPG air mixing facilities to enable air to be mixed with LPG in the required portion to produce petroleum gas with heat content equivalent to natural gas, which can then be transmitted through the main pipelines. LPG is purchased from refineries and transported to the LPG air mixing facilities located within the processing stations by LPG trucks.

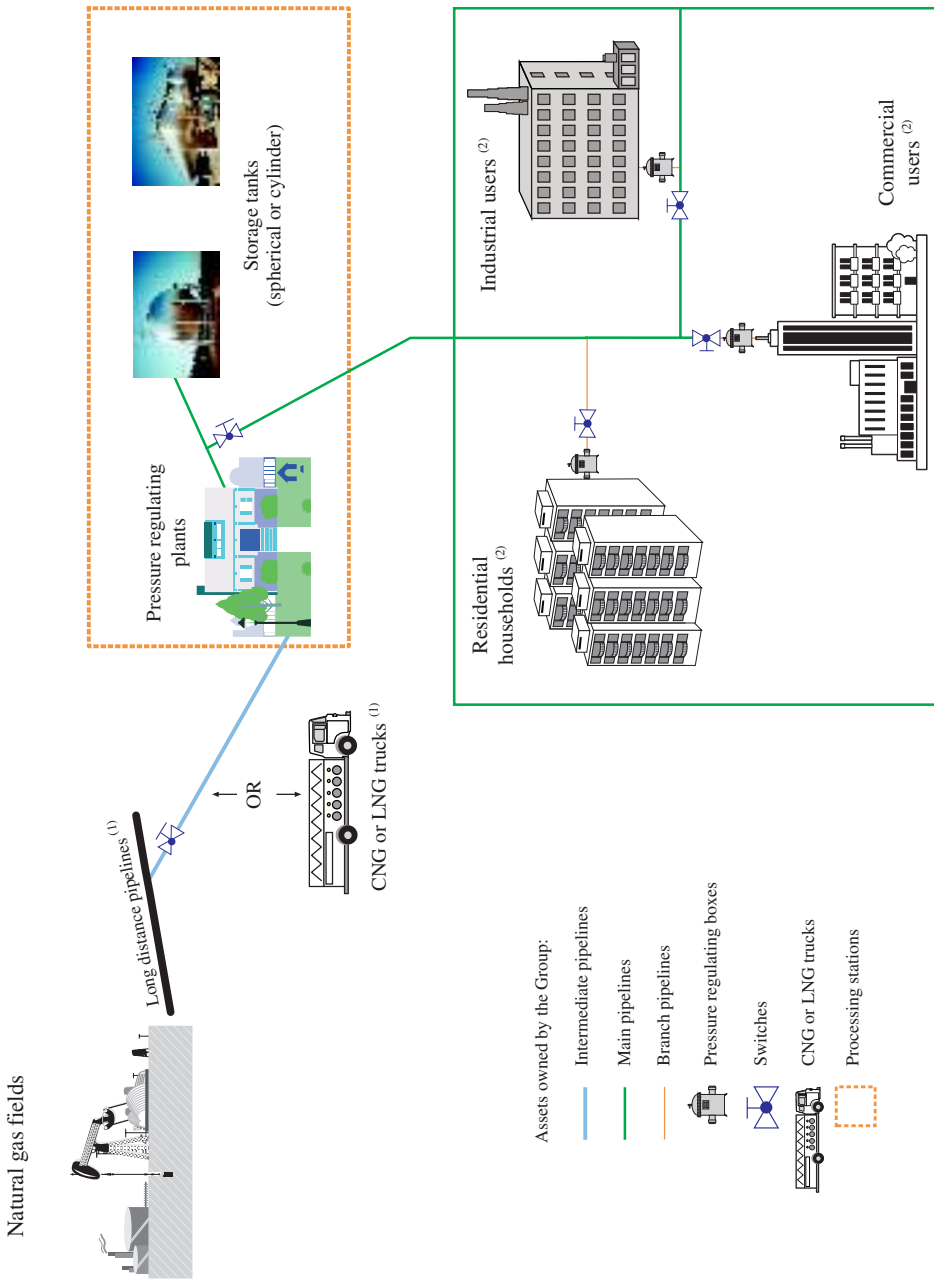
The processing station is usually located on the outskirts of an Operational Location for safety reasons and it provides certain ancillary facilities (i) to add bromine to the gas to enable the detection of leakages when the gas is transmitted through the main pipelines, and (ii) to store gas under high, medium or low pressure to be used as reserves for future unexpected fluctuation in demand. Gas storage tanks for storage of gas under high pressure usually have thicker walls and hence are more expensive to construct than gas storage tanks for storage of gas under medium or low pressure.

After processing, the gas is transmitted under medium pressure to the main pipelines. Main pipelines are laid within an Operational Location and represent the backbone of the gas delivery system. Different sections of the main pipelines operate at slightly different pressures, with computer controlled regulators controlling the flow of natural gas for delivery to end users via the branch pipelines and customers' pipelines.

When there is a demand for a connection of gas to a particular area within a gas supply location, the distribution company will invest in the construction of the branch pipelines to connect the main pipelines to the pressure regulating boxes located in the end-users' buildings or premises. The pressure regulating box reduces the natural gas to a lower pressure before the natural gas is transmitted to the customers' pipelines. Customers' pipelines, which constructions are supervised by the distribution company (on behalf of the customers) and located within the end users' premises, transmit the natural gas through the pressure regulating box to the end users. The customers' pipelines are not owned by the distribution company.

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The gas delivery process can be illustrated in the diagram set out below:



Notes:

(1) Gas delivery using either intermediate pipelines or CNG or LNG trucks.

(2) Customers' pipelines which are not owned by the Group are within the customers' premises and are not highlighted in this diagram.

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DESCRIPTION OF THE BUSINESS

The gas pipeline infrastructure owned and operated by the Group is comprised of intermediate pipelines, processing stations, main pipelines, branch pipelines and other ancillary facilities such as gas storage tanks and pressure regulating boxes. The customers' pipelines are owned by the customers. The Group's business activities, from the identification of a project to the supply of gas to end users, can be described as follows:

Identification and securing new Operational Locations

Preliminary review and feasibility studies

The Group's business development team actively explores and identifies suitable investment opportunities by conducting market research on potential locations where the demand for piped gas is apparent. Due to its experience and reputation in the industry, the Group has also received invitations from local governments to bid for new gas projects or to take over existing gas projects. The piped gas supply industry in the PRC is still in its early stages of development with many areas not yet supplied with piped gas notwithstanding their close proximity to gas sources. Due to the capital intensive nature of its projects, the Group is extremely selective in its new investments. The selection of new Operational Locations is arrived at after conducting preliminary evaluation and extensive feasibility studies on the target locations, and after assessing the project's return on investment to the Group. The Group conducted preliminary reviews on over 50 cities in 2001 out of which the Group has secured exclusive rights or rights of first refusal to supply gas to six Operational Locations. The Group will identify new Operational Locations that it can strategically expand and in which there are existing or anticipated gas sources or long distance pipelines.

In order to shortlist potential locations for further investigation, the Group conducts preliminary reviews to assess factors, which include:

- (i) size and concentration of population;
- (ii) extent and concentration of industrial and commercial activities;
- (iii) likely level of connection fees and gas usage charges;
- (iv) extent of the local government's commitment to environmental protection, environmental policies in place, and the local population's awareness of environmental issues;
- (v) whether exclusive operational rights and preferential treatment on tax and governmental fees will be obtained;
- (vi) types of gas supply (piped natural gas, CNG or LNG) and methods of delivery (whether by way of intermediate pipeline (if the gas source or long distance pipeline is located within 100 km), by CNG trucks (if the gas source or long distance pipeline is located within 200 km) or by LNG trucks (if the gas source or long distance pipeline is located within 600 km));

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- (vii) economic statistics of the relevant locations; and
- (viii) in the case of acquisition of existing gas projects, the cost of acquisition, quality of assets and/or business to be acquired, extent of liabilities of the business and whether the Group is able to resolve problems perceived or encountered in respect of the relevant existing gas projects.

Based on the findings of the feasibility studies which cover the abovementioned factors, the business development team will decide whether to make a recommendation to the management for approval to proceed with discussions and negotiations on a new project.

Securing a new Operational Location

Once the Board has approved a potential project, the Group will prepare and submit a detailed gas project proposal to the local government and commence negotiations on major issues such as the granting of exclusive rights or rights of first refusal to supply gas to that location, proposed connection fees and gas usage charges and whether any tax and other concessions or favourable policies would be granted by the local government. At around the same time, the Group may also commence negotiations with a potential local joint venture partner who is familiar with the local environment. In instances where the Group takes over an existing gas project (whether acquiring assets or a business), the Group will commence negotiations with the owner(s) of the gas project.

The Group attempts to reach an agreement with the local government on the proposed connection fees and gas usage charges, but such fees and charges are subject to final approval of the local state price bureau.

The Group's marketing team plays an active role in lobbying the relevant government authorities during the negotiation stage. After the formation of a project company, the Group will begin to negotiate gas purchase agreements to purchase gas from oil and gas exploration and production companies.

Investment in the construction of the gas pipeline infrastructure

Design stage

The design of the gas pipeline infrastructure for a gas project (which includes the intermediate pipelines, the processing stations, the main pipelines and other ancillary facilities such as gas storage tanks) is carried out by a government approved design institute in accordance with the requirements of the Group and takes into account the local population size, the development of the economy, the utilisation of energy resources and environmental conditions. At present, the Group has appointed 中國市政工程華北設計研究院(China Urban Engineering Huabei Design and Research Institute) to design the Group's gas pipeline infrastructure. The design takes into consideration the technical requirements of the Group, the needs of the local population and the environmental conditions of the area covered by the design. The master design is subject to approval by experts appointed by the local city construction department. The design stage normally takes two to three months.

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Construction stage

Once the master design is approved, the Group will invite independent qualified contractors to tender for the construction work. The selection criteria for the contractors include their qualifications, experience, expertise, reputation, familiarity with the local environment, prior relationship with the Group and tender price. The Group generally enters into turnkey contracts with independent contractors for construction, installation and maintenance of gas pipes. The Group generally provides a down payment with the remainder to be paid upon completion of a project. In the case of delay or failure on the part of the contractor to complete the project, the Group is entitled to damages or, in some instances, rescission of the contract. At the time of entering into turnkey contracts, the Group will commence the sourcing of raw materials such as pipes, gas regulating equipment and machinery. The Group has strict quality control procedures for the sourcing of supplies for construction purposes.

The Group's internal engineers and independent external inspectors monitor the entire construction process to ensure that each stage of construction meets the Group's quality and safety standards and the relevant legal requirements.

Although the gas pipeline infrastructure is designed to cover the entire Operational Location, the Group's construction programme generally focuses on early gas delivery to areas of concentrated customer demand within an Operational Location, so that gas supply can commence as soon as the essential gas pipeline infrastructure and facilities (such as the processing stations and the intermediate pipelines) are completed. Construction work in an initial target area will gradually extend to cover the whole Operational Location, which typically takes two to five years.

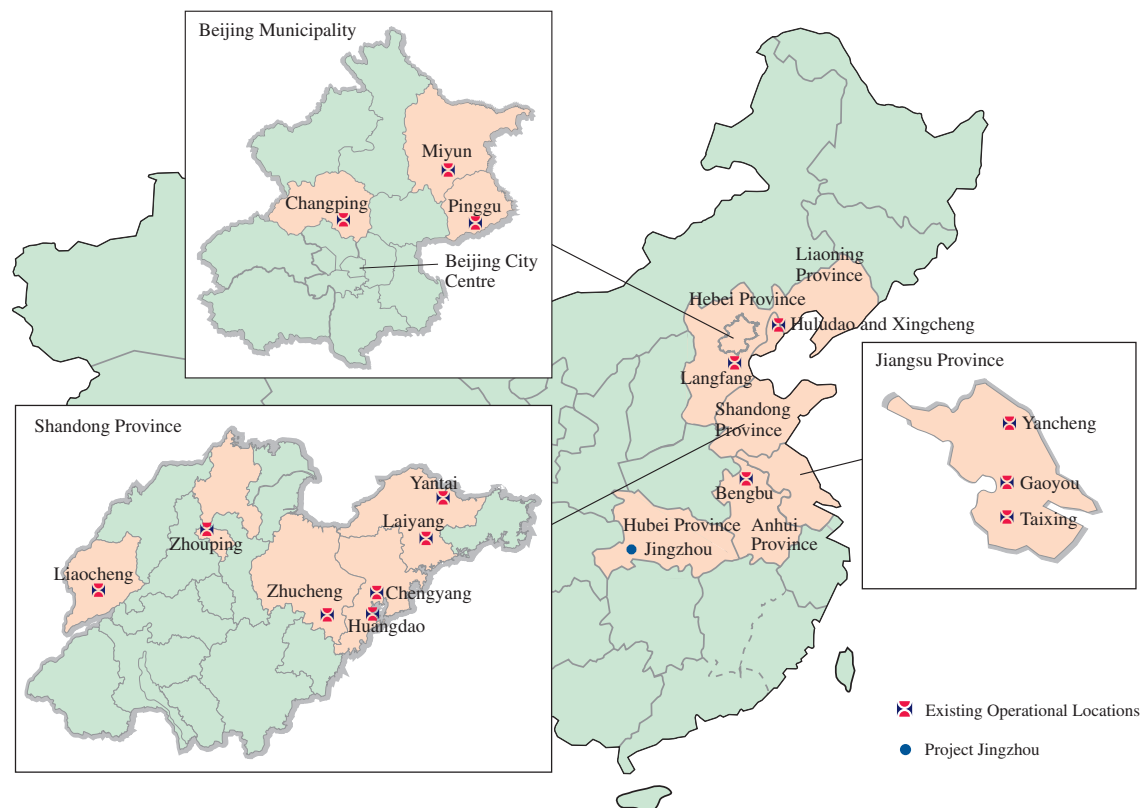
Connection to end users

Once the Group enters into a gas supply contract with a customer, the Group begins the design and construction of the branch pipelines and customers' pipelines. Unless complex designs are involved, the designs of branch pipelines and customers' pipelines are normally prepared by the Group, reviewed by a government approved design institute, and carried out by external contractors.

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AREAS OF OPERATIONS

The map below shows the locations in which the Group has interests in the provision of piped gas:



As indicated above, the Group is interested in three locations in Beijing Municipality (being Miyun, Changping and Pinggu), one location in Hebei Province (being Langfang), two locations in Liaoning Province (being Huludao and Xingcheng), seven locations in Shandong Province (being Liaocheng, Huangdao (Qingdao City), Chengyang (Qingdao City), Zhucheng, Yantai, Zouping and Laiyang), three locations in Jiangsu Province (being Gaoyou, Taixing and Yancheng) and one location Anhui Province (being Bengbu).

Provinces and cities where the Project Companies are located

Beijing Municipality

The Group currently has operations in Miyun, Changping and Pinggu, which are all located in the suburban areas of Beijing Municipality (“Beijing”).

Beijing is the capital city of the PRC and is one of the most populated cities in the PRC. It is divided into 13 districts and five counties. Beijing, under the direct central administration of the State Council, is also the political and cultural centre of the PRC, housing most of the ministries of the PRC Government and their respective departments. In addition, Beijing is an important commercial, industrial and financial centre.

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Beijing residents enjoy one of the highest standards of living in the PRC with disposable income also ranking amongst the highest in the PRC. Since the commencement of economic reforms in the PRC more than 20 years ago, the economy of Beijing has grown significantly. The GDP of Beijing had grown from RMB139 billion in 1995 to RMB248 billion in 2000 (Source: China Statistical Year Book, 1999 and 2001), representing an average rate of increase of 15.7% per year. Due to the rapid development of Beijing in recent years, the quality of air has deteriorated significantly. The Beijing Municipality Government is committed to reduce pollution in Beijing by closely monitoring the pollution in Beijing, setting targets for the improvement of air quality on an annual basis and encouraging the movement of residents from the Beijing city centre to the suburban areas of Beijing.

The winning of the 2008 Olympic Games bid demonstrates the world's confidence in the PRC and the hosting of the 2008 Olympic Games is expected to have a positive impact on the PRC's economy. In preparation for the Olympic Games, billions of dollars will be spent on infrastructure development as well as environmental protection. The Beijing Municipality Government has set a goal to increase natural gas usage in 2007 by 4.5 times the level in 2000. The Beijing Municipality also aims to achieve a minimum of second class air quality standard by 2008. Furthermore, the hosting of the Olympic Games will also lead to an increase in property development activities at neighbouring areas of Beijing. According to the existing plan, the Olympic Village is expected to be built near Changping.

Hebei Province

The Group currently has operations in Langfang, Hebei Province ("Hebei").

Hebei is located in the northeastern seaboard of the PRC surrounding both Beijing and Tianjin Municipalities. In terms of population, it is the sixth largest province in the PRC and is divided into 11 cities. Hebei is the fourth largest agricultural province in the PRC with a gross output value in the farming sector of RMB85 billion in 2000. The GDP of Hebei had grown from RMB285 billion in 1995 to RMB509 billion in 2000 (Source: China Statistical Year Book, 1999 and 2001), representing an average rate of increase of 15.6% per year. Hebei is also rich in natural resources and minerals which include coal, iron and crude oil.

Liaoning Province

The Group currently has operations in two locations within the Liaoning Province ("Liaoning"), namely, Huludao and Xingcheng.

Liaoning is located on the northeastern seaboard of the PRC. In terms of population, it is the thirteenth largest province in the PRC and is divided into 14 cities. Liaoning is the major commercial and industrial centre for the northeastern part of the PRC. It is the sixth largest industrial province and its industrial activities are concentrated in the heavy industrial sector. The GDP of Liaoning had grown from RMB279 billion in 1995 to RMB467 billion in 2000 (Source: China Statistical Year Book, 1999 and 2001), representing an average rate of increase of 13.5% per year. Liaoning is also rich in natural resources and has proven reserves for coal, crude oil and natural gas. The growth in the heavy industrial sector in recent years has caused pollution problems in Liaoning.

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Shandong Province

The Group currently has operations in seven locations within the Shandong Province (“Shandong”), namely, Liaocheng, Huangdao (Qingdao City), Chengyang (Qingdao City), Zhucheng, Yantai, Zouping and Laiyang.

Shandong is located in the northeastern seaboard of the PRC, adjacent to Hebei. In terms of population, it is the second largest province in the PRC and is divided into two districts and 15 cities. Shandong is rich in natural resources such as gold, crude oil, graphite and coal. The second largest oil field in the PRC, 勝利油田 (Shengli Oil Field) and one of the nation’s largest coal reserves, 兗滕礦區 (Yanteng Coal Mine Area) are located in Shandong. The GDP of Shandong had grown from RMB500 billion in 1995 to RMB854 billion in 2000 (Source: China Statistical Year Book, 1999 and 2001), representing an average rate of increase of 14.2% per year. Such increase is mainly the result of strong growth in the industrial sector of Shandong. Shandong is the third largest industrial province in the PRC.

Jiangsu Province

The Group currently has operations in three locations within the Jiangsu Province (“Jiangsu”), namely, Gaoyou, Taixing and Yancheng.

Jiangsu is located in the eastern seaboard of the PRC. In terms of population, it is the fifth largest province in the PRC and is divided into 13 cities. Jiangsu is the number one machinery manufacturing province and is well known for its textile industry. Jiangsu is also one of the most economically developed provinces in the PRC. The GDP per capita reached RMB11,773 in 2000, which ranked fifth in the PRC and total GDP for the province had grown from RMB516 billion in 1995 to RMB858 billion in 2000 (Source: China Statistical Year Book, 1999 and 2001), representing an average rate of increase of 13.3% per year.

Anhui Province

The Group currently has operations in Bengbu, Anhui Province (“Anhui”).

Anhui is located in the eastern part of the PRC, along the Yangtze River delta and is adjacent to Jiangsu, Shandong, Henan, Hubei, Jiangxi and Zhejiang provinces. In terms of population, it is the ninth largest province in the PRC and has 17 cities. Anhui is the seventh largest agricultural province in the PRC with a gross output value in the farming sector of RMB68 billion in 2000. The GDP of Anhui had grown from RMB200 billion in 1995 to RMB304 billion in 2000 (Source: China Statistical Year Book, 1999 and 2001), representing an average rate of increase of 10.4% per year. Anhui is also rich in natural resources and minerals which include coal and iron.

Hubei Province

The Group intends to have operations in Jingzhou, Hubei Province (“Hubei”) following the establishment of Jingzhou Xinao.

Hubei is located in the central region of the PRC, along the Yangtze River. In terms of population, Hubei is the eighth largest province in the PRC and has 12 cities. Similar to Hebei, the agricultural industry plays an important role in the overall economy of the province. It is the ninth

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largest agricultural province in the PRC with a gross output value in the farming sector of RMB62 billion in 2000. The GDP of Hubei has grown from RMB239 billion in 1995 to RMB428 billion in 2000 (Source: China Statistical Year Book, 1999 and 2001), representing an average rate of increase of 15.8% per year.

DESCRIPTION OF THE PROJECT COMPANIES

The Group has obtained either exclusive rights or rights of first refusal from local governments to supply piped gas to all of the existing Operational Locations. As at the Latest Practicable Date, the Group has 16 Project Companies (each has an operational period of 30 years) in the PRC. Details regarding each of the Project Companies are set out below and the main terms of the contract relating to each of the Project Companies are set out in the paragraph headed "Further information about the Company – Particulars of the Project Companies" in Appendix IV to this document.

Langfang Xinao (Hebei Province)

Langfang Xinao was originally established as a Sino-foreign equity joint venture on 28 March 1993 and was owned as to approximately 66.7% by Langfang City Gas and approximately 33.3% by Ms. Zhao. Following completion of shareholding transfers in 1998 and the Reorganisation, Langfang Xinao was owned as to 95% by Langfang BVI and 5% by Langfang City Gas. In December 2001, Langfang BVI acquired 5% interest in Langfang Xinao from Langfang City Gas for a consideration of RMB10,000,000 thereby increasing its interest in Langfang Xinao from 95% to 100% and the legal status of Langfang Xinao was changed from a Sino-foreign equity joint venture to a wholly owned foreign enterprise. Langfang Xinao is now a wholly owned subsidiary of Langfang BVI. Langfang Xinao has the exclusive right to supply piped gas to the Langfang city centre (which includes the Langfang Economic and Technical Development Zone (the "Langfang Development Zone")). The Langfang city centre has a population of approximately 270,000 (comprising a total of approximately 90,000 households) and over 2,850 enterprises as at the end of 2000. The Langfang City People's Government anticipates that the population of the Langfang city centre for 2010 will increase by approximately 85.2% to approximately 500,000 (comprising a total of approximately 166,000 households). Langfang is a city in Hebei Province and is located between Beijing and Tianjin municipalities and is approximately 50 km to the southeast of the Beijing city centre and approximately 60 km to the northwest of Tianjin municipality.

As at 28 February 2002, a total of approximately 59 km of intermediate pipelines, 133 km of main pipelines and four processing stations with a current combined designed daily capacity to supply 409,800 m³ of natural gas had been constructed. The processing station at the Langfang Development Zone is currently equipped with CNG supply facilities, which are capable of loading CNG equivalent to approximately 2,800 m³ of natural gas onto CNG trucks per hour.

Langfang Xinao currently obtains its supply of natural gas from 華北油田 (Huabei Oil Field) through its intermediate pipelines. Pursuant to a gas purchase agreement dated 9 January 2002 entered into between Langfang Xinao and 中國石油天然氣股份有限公司華北油田分公司運銷部 (PetroChina Company Limited Huabei Oil Field Branch Company Transmission and Sales Office*), 28,000,000 m³ of natural gas will be supplied to Langfang Xinao from the 永北長輸管道 (Yongbei long distance pipeline) for the year 2002.

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The table below summarises the number of supply contracts Langfang Xinao has entered into since its establishment and up to 28 February 2002:

	Number of supply contracts	Contracted number of gas supply locations	Number of gas connections made	Estimated daily gas consumption ⁽¹⁾ (m ³)
Residential	10,181	60,847 households ⁽²⁾	58,601 households	23,440
Commercial and industrial	257	257 sites ⁽³⁾	242 sites	82,450
	10,438	60,847 households and 257 sites	58,601 households and 242 sites	105,890
	10,438	60,847 households and 257 sites	58,601 households and 242 sites	105,890

Notes:

- (1) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contracts) of 164,899 m³ as at 28 February 2002 for those customers with gas connections made.
- (2) Contracted households represent approximately 67.6% of the current estimated residential households of approximately 90,000 in the Langfang city centre.

Liaocheng Xinao (Shandong Province)

Liaocheng Xinao was originally established as a PRC joint venture on 11 June 1999 and was owned as to 80% by XGCL and the remaining 20% was owned as to 10% by each of 廊坊開發區市政建設工程有限公司 (Langfang Development Zone Urban Construction Engineering Company Limited*) and 聊城市公用事業管理局 (Liaocheng City Public Utilities Supervisory Bureau*). Following completion of shareholding transfers and the Reorganisation, the legal status of Liaocheng Xinao was changed from a PRC joint venture to a Sino-foreign equity joint venture. Liaocheng Xinao is now a Sino-foreign equity joint venture established on 8 August 2000 and is owned as to 90% by Liaocheng BVI and 10% by 聊城市熱力公司 (Liaocheng City Heating Company*, a state-owned enterprise engaged in electricity and gas-related businesses). Liaocheng Xinao has the exclusive right to supply piped gas to the Liaocheng city centre (which includes the Liaocheng Economic and Technical Development Zone). The Liaocheng city centre has a population of approximately 314,000 (comprising a total of approximately 105,000 households) as at the end of 2000. The Liaocheng City People's Government anticipates that the population of Liaocheng city centre for 2010 will increase by approximately 52.9% to approximately 480,000 (comprising a total of approximately 160,000 households). Liaocheng is a city in Shandong Province and is located approximately 91 km to the west of Jinan.

As at 28 February 2002, a total of approximately 1 km of intermediate pipeline, 71 km of main pipelines and a processing station with a current designed daily capacity to supply 50,000 m³ of natural gas had been constructed.

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Liaocheng Xinao currently obtains its supply of natural gas from 中原油田 (Zhongyuan Oil Field) through its intermediate pipelines. Pursuant to a natural gas purchase agreement dated 30 January 2002 entered into between Liaocheng Xinao and 中原油氣高新股份有限公司天然氣產銷廠 (Natural Gas Production and Sales Factory of Zhongyuan Petroleum and Natural Gas High Technology Company Limited*), 3,650,000 m³ of natural gas per annum will be supplied to Liaocheng Xinao from the 中滄長輸管道 (Zhongcang long distance pipeline) for the period from 1 January 2002 to 31 December 2002.

Liaocheng Xinao commenced the partial supply of natural gas in December 1999. The table below summarises the number of supply contracts Liaocheng Xinao has entered into since its establishment and up to 28 February 2002:

	Number of supply contracts	Contracted number of gas supply locations	Number of gas connections made	Estimated daily gas consumption ⁽¹⁾ (m ³)
Residential	280	17,350 households ⁽²⁾	11,130 households	4,452
Commercial and industrial	37	37 sites	31 sites	7,158
	317	17,350 households and 37 sites	11,130 households and 31 sites	11,610

Notes:

- (1) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contracts) of 14,315 m³ as at 28 February 2002 for those customers with gas connections made.
- (2) Contracted households represent approximately 16.5% of the current estimated residential households of approximately 105,000 in the Liaocheng city centre.

Beijing Xinao (Beijing Municipality)

Beijing Xinao was originally established as a PRC joint venture on 10 September 1999 and was owned as to 80% by XGCL and 20% by 北京市密雲化工公司 (Beijing City Miyun Chemicals Company* ("Miyun Chemicals"), a state-owned enterprise engaged in gas-related business and the sale of building materials). Following completion of the Reorganisation, the legal status of Beijing Xinao was changed from a PRC joint venture to a Sino-foreign equity joint venture. During the period between May and October 2001, Miyun BVI acquired a total of 15% interest in Beijing Xinao from Miyun Chemicals for an aggregate consideration of RMB1,390,000 thereby increasing its interest in Beijing Xinao from 80% to 95%. Beijing Xinao is now a Sino-foreign equity joint venture established on 8 August 2000 and is owned as to 95% by Miyun BVI and 5% by Miyun Chemicals. Beijing Xinao has the exclusive right to supply piped gas to the residential districts in Miyun. The Miyun county centre has a population of approximately 97,000 (comprising a total of approximately 32,000 households) as at the end of 2000. The Miyun County People's Government anticipates that the population of Miyun county centre for 2010 will increase by approximately 209.3% to approximately 300,000 (comprising a total of approximately 100,000 households). Miyun is a county in the suburban area of Beijing Municipality and is located approximately 65 km to the northeast of Beijing city centre.

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As at 28 February 2002, a total of approximately 30 km of main pipelines and a processing station with a current designed daily capacity to supply 72,000 m³ of natural gas had been constructed.

Natural gas is currently supplied to Beijing Xinao by Xinao Gas Development by transporting CNG using CNG trucks to its processing station. The pressure of the CNG is then reduced to the requisite level at such station before delivery to end users via the main pipelines. Further information relating to the supply of natural gas (in the form of CNG) to Beijing Xinao by Xinao Gas Development are set out in the paragraph headed "Other major group companies – Xinao Gas Development" below.

The construction of a new long distance pipeline (being the eastern extension of the 陝甘寧長輸管道 (Shanganning long distance pipeline)), is currently being planned by the Beijing Municipality Government. Such long distance pipeline is expected to pass nearby Miyun and will be available to supply natural gas to Miyun in 2006. Beijing Xinao currently intends to construct an intermediate pipeline connecting such new long distance pipeline with a new processing station with a designed daily capacity to supply 100,000 m³ of natural gas is planned to be constructed by Beijing Xinao on the outskirts of the Miyun county centre.

Beijing Xinao commenced the partial supply of natural gas in January 2000. The table below summarises the number of supply contracts Beijing Xinao has entered into since its establishment and up to 28 February 2002:

	Number of supply contracts	Contracted number of gas supply locations	Number of gas connections made	Estimated daily gas consumption ⁽¹⁾ (m ³)
Residential	227	8,857 households ⁽²⁾	4,621 households	1,848
Commercial and industrial	21	21 sites	17 sites	31,414
	248	8,857 households and 21 sites	4,621 households and 17 sites	33,262

Notes:

- (1) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contracts) of 62,828 m³ as at 28 February 2002 for those customers with gas connections made.
- (2) Contracted households represent approximately 27.7% of the current estimated residential households of approximately 32,000 in the Miyun county centre.

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Huludao Xinao (Liaoning Province)

Huludao Xinao was originally established as a PRC joint venture on 24 December 1999 and was owned as to 90% by XGCL and 10% by 葫蘆島市城市建設委員會 (Huludao City Urban Construction Committee*). Following completion of shareholding transfer and the Reorganisation, the legal status of Huludao Xinao was changed from a PRC joint venture to a Sino-foreign equity joint venture. Huludao Xinao is now a Sino-foreign equity joint venture established on 7 August 2000 and is owned as to 90% by Huludao BVI and 10% by 葫蘆島市城市建設投資有限公司 (Huludao City Urban Construction Investment Company Limited*, a state-owned enterprise engaged in the investment in, and operation of, infrastructure projects). Huludao Xinao has the exclusive right to supply piped gas to the Huludao city centre (which includes the Huludao Economic and Technical Development Zone). The Huludao city centre has a population of approximately 469,000 (comprising a total of approximately 156,000 households) as at the end of 2000. The Huludao City People's Government anticipates that the population of the Huludao city centre for 2010 will increase by approximately 16.6% to approximately 547,000 (comprising a total of approximately 182,000 households). Huludao is a city located on the southwestern part of Liaoning Province.

On 8 January 2002, Huludao Xinao entered into an agreement with Xingcheng City People's Government for the purpose of setting up a branch in Xingcheng ("Xingcheng Branch") to engage in piped gas distribution in Xingcheng. Under this agreement, Huludao Xinao will purchase existing pipelines of 14 km from the Xingcheng City People's Government for a consideration of RMB5,000,000 while the Xingcheng City People's Government has agreed to grant an exclusive right to Xingcheng Branch to supply piped gas to the Xingcheng city centre during its operational period of 30 years. In an effort to promote the use of clean energy, the Xingcheng City People's Government has agreed to subsidise RMB500 for each of the first 10,000 residential connections. This subsidy will offset against the consideration payable by Huludao Xinao for the purchase of pipelines. The Xingcheng city centre has a population of 123,000 (comprising a total of approximately 41,000 households) as at the end of 2000. The Xingcheng City People's Government anticipates that the population of Xingcheng city centre for 2010 will increase by approximately 13.8% to approximately 140,000 (comprising a total of approximately 47,000 households). Xingcheng is located approximately 12 km to the southeast of Huludao. It is currently intended that Huludao Xinao will start supplying gas to the Xingcheng city centre in November 2002.

As at 28 February 2002, a total of approximately 2 km of intermediate pipeline, 52 km of main pipelines and a processing station with a current designed daily capacity to supply 30,000 m³ of natural gas had been constructed.

Huludao Xinao currently obtains its supply of natural gas from 渤海油田 (Bohai Gas Wells) through its intermediate pipelines. Pursuant to a gas supply agreement dated 28 July 1998 and supplemental agreement dated 31 January 2001 entered into between Huludao Xinao and 中海石油(中國)有限公司 (China National Offshore Oil (PRC) Limited), up to 30,000 m³ of natural gas from Bohai Gas Wells will be supplied per day to Huludao Xinao from 31 January 2001 through 5 November 2012.

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Huludao Xinao commenced the partial supply of natural gas in December 1999. The table below summarises the number of supply contracts Huludao Xinao has entered into since its establishment and up to 28 February 2002:

	Number of supply contracts	Contracted number of gas supply locations	Number of gas connections made	Estimated daily gas consumption ⁽¹⁾ (m ³)
Residential	10,958	27,349 households ⁽²⁾	22,585 households	9,034
Commercial and industrial	57	57 sites	49 sites	10,875
	11,015	27,349 households and 57 sites	22,585 households and 49 sites	19,909

Notes:

- (1) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contracts) of 21,749 m³ as at 28 February 2002 for those customers with gas connections made.
- (2) Contracted households represent approximately 17.5% of the current estimated residential households of approximately 156,000 in Huludao city centre.

Jingchang Xinao (Beijing Municipality)

Jingchang Xinao was originally established as a PRC joint venture on 16 November 2000 and was owned as to 80% by XGCL and 20% by 北京市昌平市政經濟發展總公司 (Beijing City Changping Urban Economic Development Corporation*, a state-owned enterprise engaged in civil engineering, tourism and sale of building materials). In August 2001, Changping BVI acquired XGCL's entire equity interest in Jingchang Xinao for a consideration of RMB7,920,000 and the legal status of Jingchang Xinao was changed from a PRC joint venture to a Sino-foreign equity joint venture. Jingchang Xinao is now a Sino-foreign equity joint venture established on 16 August 2001 and is owned as to 80% by Changping BVI and 20% by Beijing City Changping Urban Economic Development Corporation. Jingchang Xinao has the exclusive right to supply piped gas to satellite cities in Changping (which includes the Changping district centre). The Changping district centre has a population of approximately 97,000 (comprising a total of approximately 32,000 households) as at the end of 2000. The Changping District People's Government anticipates that the population of the Changping district centre for 2010 will increase by approximately 70.1% to approximately 165,000 (comprising a total of approximately 55,000 households). Changping, being known as one of the back gardens of Beijing Municipality, is a district in the suburban area of Beijing Municipality and is located approximately 30 km to the northwest of Beijing city centre.

As at 28 February 2002, a total of approximately 33 km of main pipelines and a processing station with a current designed daily capacity to supply 72,000 m³ of natural gas had been constructed.

THE GROUP'S BUSINESS

Natural gas is currently being supplied to Jingchang Xinao by Xinao Gas Development by transporting CNG using CNG trucks to its processing station. The pressure of the CNG is then reduced to the requisite level at such station before delivery to end users via the main pipelines. Further information relating to the supply of natural gas (in the form of CNG) to Jingchang Xinao by Xinao Gas Development are set out in the paragraph headed "Other major group companies – Xinao Gas Development" below.

Two new long distance pipelines (both being the western extensions of the 陝甘寧長輸管道 (Shanganning long distance pipeline)) are currently being constructed by the Beijing Municipality Government. The pipelines, being the 北湯線 (the "Beitang Extension"), which connects the Shanganning long distance pipeline at 北苑 (Beiyuan) with Xiaotangshan Town, and the 回南線 (the "Huinan Extension"), which connects the Shanganning long distance pipeline at 回龍觀 (Huilongguan) with 南口鎮 (Nankou Town) in Changping, pass nearby the Changping district centre. It is currently expected that the Huinan Extension will be able to supply natural gas to Changping district centre in the second quarter of 2003. Jingchang Xinao currently intends to construct an intermediate pipeline connecting the Huinan Extension with a new processing station to be located on the southern outskirts of the Changping district centre. Upon completion of the construction of such intermediate pipeline and processing station, it is anticipated that Jingchang Xinao will obtain natural gas supply via pipelines.

Jingchang Xinao commenced the partial supply of natural gas in December 2000. The table below summarises the number of supply contracts Jingchang Xinao has entered into since its establishment and up to 28 February 2002:

	Number of supply contracts	Contracted number of gas supply locations	Number of gas connections made	Estimated daily gas consumption ⁽¹⁾ (m ³)
Residential	190	9,381 households ⁽²⁾	4,494 households	1,798
Commercial and industrial	9	9 sites	8 sites	914
	199	9,381 households and 9 sites	4,494 households and 8 sites	2,712
	199	9,381 households and 9 sites	4,494 households and 8 sites	2,712

Notes:

- (1) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contracts) of 1,828 m³ as at 28 February 2002 for those customers with gas connections made.
- (2) Contracted households represent approximately 29.3% of the current estimated residential households of approximately 32,000 in the Changping district centre.

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Jinggu Xinao (Beijing Municipality)

Jinggu Xinao was originally established as a PRC joint venture on 11 August 2000 and was owned as to 70% by XGCL and 30% by 平谷縣液化石油氣公司 (Pinggu County LPG Company*, a state-owned enterprise engaged in gas-related projects). In June 2001, Pinggu BVI acquired XGCL's entire equity interest in Jinggu Xinao for a consideration of RMB6,930,000 and the legal status of Jinggu Xinao was changed from a PRC joint venture to a Sino-foreign equity joint venture. Jinggu Xinao is now a Sino-foreign equity joint venture established on 18 June 2001 and is owned as to 70% by Pinggu BVI and 30% by Pinggu County LPG Company. Jinggu Xinao has the exclusive right to supply piped gas to the Pinggu county centre (which includes the 興谷開發區 (Xinggu Development Zone) and the 濱河開發區 (Binhe Development Zone)). The Pinggu county centre has a population of approximately 97,000 (comprising a total of approximately 32,000 households) as at the end of 2000. The Pinggu County People's Government anticipates that the population of the Pinggu county centre for 2010 will increase by approximately 95.9% to approximately 190,000 (comprising a total of approximately 63,000 households). Pinggu is a county in the suburban area of Beijing Municipality and is located approximately 70 km to the northeast of Beijing city centre.

As at 28 February 2002, a total of approximately 32 km of main pipelines and a processing station with a current designed daily capacity to supply 72,000 m³ of natural gas had been constructed.

Natural gas is currently being supplied to Jinggu Xinao by Xinao Gas Development by transporting CNG using CNG trucks to its processing station. The pressure of the CNG is then reduced to the requisite level at such station before delivery to end users via the main pipelines. Further information relating to the supply of natural gas (in the form of CNG) to Jinggu Xinao by Xinao Gas Development are set out in the paragraph headed "Other major group companies – Xinao Gas Development" below.

Jinggu Xinao commenced the partial supply of natural gas in January 2001. The table below summarises the number of supply contracts Jinggu Xinao has entered into since its establishment and up to 28 February 2002:

	Number of supply contracts	Contracted number of gas supply locations	Number of gas connections made	Estimated daily gas consumption ⁽¹⁾ (m ³)
Residential	731	6,634 households ⁽²⁾	2,710 households	1,084
Commercial and industrial	8	8 sites	6 sites	1,232
	<u>739</u>	<u>6,634 households and 8 sites</u>	<u>2,710 households and 6 sites</u>	<u>2,316</u>

Notes:

- (1) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contracts) of 2,464 m³ as at 28 February 2002 for those customers with gas connections made.
- (2) Contracted households represent approximately 20.7% of the current estimated residential households of approximately 32,000 in the Pinggu county centre.

THE GROUP'S BUSINESS

Qingdao Xinao (Shandong Province)

Qingdao Xinao was originally established as a PRC joint venture on 30 October 2000 and was owned as to 90% by XGCL and 10% by 青島經濟技術開發區熱電燃氣總公司 (Qingdao Economic and Technical Development Zone Heating, Electricity and Gas Corporation*, a state-owned enterprise engaged principally in the supply of hot water and steam, the production and supply of electricity with steam and residual heat, the installation and maintenance of heating ducts, electrical engineering and urban construction). In May 2001, Huangdao BVI acquired XGCL's entire equity interest in Qingdao Xinao for a consideration of RMB18,000,000 and the legal status of Qingdao Xinao was changed from a PRC joint venture to a Sino-foreign equity joint venture. Qingdao Xinao is now a Sino-foreign equity joint venture established on 12 June 2001 and is owned as to 90% by Huangdao BVI and 10% by Qingdao Economic and Technical Development Zone Heating, Electricity and Gas Corporation. Qingdao Xinao has the right of first refusal to develop and supply piped gas in Huangdao. Huangdao has a population of approximately 194,000 (comprising a total of approximately 65,000 households) as at the end of 2000. The Huangdao District People's Government anticipates that the population of Huangdao for 2010 will increase by approximately 209.3% to approximately 600,000 (comprising a total of approximately 200,000 households). Huangdao is a district of Qingdao.

As at 28 February 2002, a total of approximately 40 km of main pipelines and a processing station with a current combined designed daily capacity to supply 72,000 m³ of natural gas had been constructed.

Natural gas is currently being supplied to Qingdao Xinao by Xinao Gas Development by transporting CNG using CNG trucks to its processing stations. The pressure of the CNG is then reduced to the requisite level at such stations before delivery to end users via the main pipelines. Further information relating to the supply of natural gas (in the form of CNG) to Qingdao Xinao by Xinao Gas Development are set out in the paragraph headed "Other major group companies – Xinao Gas Development" below.

Qingdao Xinao commenced the partial supply of natural gas in December 2000. The table below summarises the number of supply contracts Qingdao Xinao has entered into since its establishment and up to 28 February 2002:

	Number of supply contracts	Contracted number of gas supply locations	Number of gas connections made	Estimated daily gas consumption ⁽¹⁾ (m ³)
Residential	226	7,515 households ⁽²⁾	3,786 households	1,514
Commercial and industrial	7	7 sites	4 sites	1,136
	<u>233</u>	<u>7,515 households and 7 sites</u>	<u>3,786 households and 4 sites</u>	<u>2,650</u>

Notes:

- (1) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contracts) of 2,272 m³ as at 28 February 2002 for those customers with gas connections made.
- (2) Contracted households represent approximately 11.6% of the current estimated residential households of approximately 65,000 in Huangdao.

THE GROUP'S BUSINESS

Xincheng Xinao (Shandong Province)

Xincheng Xinao is a Sino-foreign equity joint venture established on 13 June 2001 and is owned as to 90% by Chengyang BVI and 10% by 青島城陽建設工程監理有限公司 (Qingdao Chengyang Construction Engineering Supervisory Company Limited, a state-owned enterprise engaged in the supervision of utility projects). Xincheng Xinao has obtained the exclusive right to supply piped gas to the Chengyang district centre. The Chengyang district centre has a population of approximately 52,000 (comprising a total of approximately 17,000 households) as at the end of 2000. The Chengyang District People's Government anticipates that the population of Chengyang district centre for 2010 will increase by approximately 207.7% to approximately 160,000 (comprising a total of approximately 53,000 households). Chengyang is a district within Qingdao City and is located approximately 35 km to the north of Qingdao.

As at 28 February 2002, a total of approximately 12 km of main pipelines and a processing station with a current designed daily capacity to supply 30,000 m³ of natural gas had been constructed.

Natural gas is currently being supplied to Xincheng Xinao by Xinao Gas Development by transporting CNG using CNG trucks to its processing station. The pressure of the CNG is then reduced to the requisite level at such station before delivery to end users via the main pipelines. Further information relating to the supply of natural gas (in the form of CNG) to Xincheng Xinao by Xinao Gas Development are set out in the paragraph headed "Other major group companies – Xinao Gas Development" below.

Oil and gas companies in the PRC are currently planning to build long distance pipelines to supply natural gas to the Shandong Province. These long distance pipelines, which transports natural gas from Zhongyuan Oil Field as well as from gas fields in Cangzhou and Bohai Bay to Qingdao and Yantai could provide a stable and additional natural gas supply to Xincheng Xinao once completed.

Xincheng Xinao commenced the partial supply of natural gas in October 2001. The table below summarises the number of supply contracts Xincheng Xinao has entered into since its establishment and up to 28 February 2002:

	Number of supply contracts	Contracted number of gas supply locations	Number of gas connections made	Estimated daily gas consumption ⁽¹⁾ (m ³)
Residential	46	4,838 households ⁽²⁾	1,511 households	604
Commercial and industrial	1	1 site	–	–
	<u>47</u>	<u>4,838 households and 1 site</u>	<u>1,511 households</u>	<u>604</u>

Notes:

- (1) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made.
- (2) Contracted households represent approximately 28.5% of the current estimated residential households of approximately 17,000 in the Chengyang district centre.

THE GROUP'S BUSINESS

Zhucheng Xinao (Shandong Province)

Zhucheng Xinao is a Sino-foreign equity joint venture established on 30 May 2001 and is owned as to 80% by Zhucheng BVI and 20% by 諸城市燃氣熱力總公司 (Zhucheng City Gas and Heating Corporation, a state-owned enterprise engaged in the sale of LPG and gas-related business). Zhucheng Xinao has the exclusive right to supply piped gas to the Zhucheng district centre (which includes the Zhucheng Economic and Technical Development Zone). The Zhucheng city centre has a population of approximately 168,000 (comprising a total of approximately 56,000 households) as at the end of 2000. The Zhucheng City People's Government anticipates that the population of Zhucheng city centre for 2010 will increase by approximately 78.6% to approximately 300,000 (comprising a total of approximately 100,000 households). Zhucheng is a city situated at the southeastern part of Shandong Province.

As at 28 February 2002, a total of approximately 10 km of main pipelines and a processing station with a current designed daily capacity to supply 40,000 m³ of natural gas had been constructed. LPG air mixing facilities as backup gas supply has also been installed at such processing station.

Natural gas is currently being supplied to Zhucheng Xinao by Xinao Gas Development by transporting CNG using CNG trucks to its processing station. The pressure of the CNG is then reduced to the requisite level at such station before delivery to end users via main pipelines. Further information relating to the supply of natural gas (in the form of CNG) to Zhucheng Xinao by Xinao Gas Development are set out in the paragraph headed "Other major group companies – Xinao Gas Development" below.

The PRC Government is currently considering the feasibility of constructing a long distance pipeline for obtaining natural gas from the Russian Federation to 日照 (Rizhao) (located approximately 50 km from Zhucheng), which will pass nearby Zhucheng. Such long distance pipeline could provide additional natural gas supply to Zhucheng Xinao if the PRC Government decides to proceed with such construction.

Zhucheng Xinao commenced the partial supply of natural gas in November 2001. The table below summarises the number of supply contracts Zhucheng Xinao has entered into since its establishment and up to 28 February 2002:

	Number of supply contracts	Contracted number of gas supply locations	Number of gas connections made	Estimated daily gas consumption ⁽¹⁾ (m ³)
Residential	35	2,524 households ⁽²⁾	626 households	250
Commercial and industrial	1	1 site	1 site	50
	<u>36</u>	<u>2,524 households and 1 site</u>	<u>626 households and 1 site</u>	<u>300</u>

Notes:

- (1) Estimated daily gas consumption for households is calculated based on an average daily gas consumption of 0.4 m³ per household for those residential households with gas connections made. Estimated daily gas consumption for commercial and industrial customers is based on 50% of the installed designed daily capacity (as set out in the respective supply contract) of 100 m³ as at 28 February 2002 for those customers with gas connections made.
- (2) Contracted households represent approximately 4.5% of the current estimated residential households of approximately 56,000 in the Zhucheng city centre.

THE GROUP'S BUSINESS

Yantai Xinao (Shandong Province)

Yantai Xinao is a wholly owned foreign enterprise of Yantai BVI established on 16 July 2001. Yantai Xinao has the exclusive right to supply piped gas to the Yantai Economic and Technical Development Zone (the “Yantai Development Zone”). The Yantai Development Zone has a population of approximately 41,000 (comprising a total of approximately 14,000 households) and is a major industrial city with over 400 foreign enterprises as at the end of 2000. The Yantai City People’s Government anticipates that the population of Yantai Development Zone for 2010 will increase by approximately 143.9% to approximately 100,000 (comprising a total of approximately 33,000 households). Yantai is a city situated at the eastern coast of Shandong Province.

The initial phase of piped gas development of Yantai Xinao covers the Yantai Development Zone and involves the investment in the construction of main pipelines with CNG pressure regulating facilities to be installed in a processing station to be located in the outskirts of the Yantai Development Zone. It is currently intended that natural gas will be supplied to Yantai Xinao by Xinao Gas Development by transporting CNG using CNG trucks to its processing station. The pressure of the CNG will then be reduced to the requisite level at such station before delivery to end users via the main pipelines. Further information relating to the supply of natural gas (in the form of CNG) to Yantai Xinao by Xinao Gas Development are set out in the paragraph headed “Other major group companies – Xinao Gas Development” below.

China National Offshore Oil Corporation has been developing the natural gas reserves in Bohai Bay and plans to build a long distance pipeline connecting Yantai and Qingdao from 龍口 (Longkou). Such long distance pipeline, once completed could provide a stable supply of natural gas to Yantai Xinao.

It is currently intended that Yantai Xinao will commence gas supply to its customers from June 2002 onwards.

Bengbu Xinao (Anhui Province)

Bengbu Xinao is a Sino-foreign equity joint venture established on 28 December 2001 and is owned as to 70% by Southeast China BVI and 30% by 蚌埠市城市建設投資經營有限公司 (Bengbu City Construction Investment Company Limited*, a state-owned enterprise engaged in the investment in and financing of city infrastructure construction). Bengbu Xinao has the exclusive right to supply piped gas to the Bengbu city centre. The Bengbu city centre has a population of approximately 764,000 (comprising a total of approximately 255,000 households) and over 1,240 industrial enterprises as at the end of 2000. The Bengbu City People’s Government anticipates that the population of Bengbu city centre for 2010 will increase by approximately 24.3% to approximately 950,000 (comprising a total of approximately 317,000 households). Bengbu is an industrial and commercial city located in the northern part of the Anhui Province and is approximately 120 km north of Hefei.

THE GROUP'S BUSINESS

The initial phase of piped gas development of Bengbu Xinao covers the Bengbu city centre and involves the investment in the construction of main pipelines with LNG pressure regulating facilities to be installed in a processing station to be located on the outskirts of the Bengbu city centre. The new processing station will have a designed daily capacity to supply 690,000 m³ of natural gas. It is currently intended that Bengbu Xinao will, before the commencement of natural gas supply via the West to East Pipelines, commence and complete the construction of an intermediate pipeline connecting the West to East Pipelines with the aforementioned new processing station such that Bengbu Xinao can obtain natural gas from the West to East Pipelines as soon as it is available.

Upon completion of the processing station but before the availability of natural gas supply via the West to East Pipeline, it is expected that natural gas (in the form of LNG) will be supplied to Bengbu Xinao by transporting LNG using LNG trucks to its processing station. The pressure of the LNG will then be reduced to the requisite level at such station before delivery to end users via the main pipelines. Xinao Gas Development has entered into a gas purchase agreement with 河南中原綠能高科有限責任公司 (Henan Zhongyuan High Technology Company Limited*) and that LNG will be delivered directly to Bengbu Xinao by Henan Zhongyuan High Technology Company Limited (please refer to the paragraph headed "Other major group companies – Xinao Gas Development" below for further details).

It is currently intended that Bengbu Xinao will commence gas supply to its customers from August 2002 onwards.

Yangzhou Xinao (Jiangsu Province)

Yangzhou Xinao is a wholly owned foreign enterprise of Jiangsu BVI established on 18 December 2001. Yangzhou Xinao has the exclusive right to supply piped gas to the Gaoyou city centre. The Gaoyou city centre has a population of approximately 149,000 (comprising a total of approximately 50,000 households) as at the end of 2000. The Gaoyou City People's Government anticipates that the population of Gaoyou city centre will increase to approximately 160,000 (comprising a total of approximately 53,000 households) in 2005 and approximately 240,000 (comprising a total of approximately 80,000 households) in 2020. Gaoyou is a city located at approximately 50 km north of Yangzhou.

The initial phase of piped gas development of Yangzhou Xinao covers the Gaoyou city centre and involves the investment in the construction of main pipelines with CNG pressure regulating facilities to be installed in a processing station to be located on the outskirts of the Gaoyou city centre. The new processing station will have a designed daily capacity to supply 16,000 m³ of natural gas. It is expected that natural gas (in the form of CNG) will be supplied to Yangzhou Xinao by transporting CNG using CNG trucks to its processing station. The pressure of the CNG will then be reduced to the requisite level at such station before delivery to end users via the main pipelines. It is currently intended that such CNG will be supplied to Yangzhou Xinao by Yancheng Xinao CNG (please refer to the paragraph headed "Other major group companies – Yancheng Xinao CNG" below for further details).

It is currently intended that Yangzhou Xinao will commence gas supply to its customers from October 2002 onwards.

THE GROUP'S BUSINESS

Taixing Xinao (Jiangsu Province)

Taixing Xinao is a Sino-foreign equity joint venture established on 4 February 2002 and is owned as to 90% by Jiangsu BVI and 10% by 泰興市管道液化氣公司 (Taixing City Piped LPG Company*, a state-owned enterprise engaged in the sale of LPG and gas-related business). Prior to the establishment of Taixing Xinao, Taixing City Piped LPG Company supplied piped LPG to a small number of customers in Taixing City. On 18 December 2001, Jiangsu BVI entered into an agreement with Taixing City Piped LPG Company to acquire its assets used in the supply of LPG to the Taixing City and liabilities for a consideration to be determined with reference to an independent valuation of the assets and liabilities to be acquired. It is expected that Taixing Xinao will continue to supply piped LPG to these customers after the transfer and the supply of piped LPG will be replaced by natural gas at a later stage as described below. Taixing Xinao has the exclusive right to supply piped gas to the Taixing city centre (which includes the Taixing Economic and Technical Development Zone). The Taixing city centre has a population of approximately 150,000 (comprising a total of approximately 50,000 households) as at the end of 2000. The Taixing City People's Government anticipates that the population of Taixing city centre for 2010 will increase by approximately 45.3% to approximately 218,000 (comprising a total of approximately 73,000 households). Taixing is a city located at approximately 25 km southeast of Yangzhou City, Jiangsu Province.

The initial phase of piped gas development of Taixing Xinao covers the Taixing city centre and involves the investment in the construction of main pipelines with CNG pressure regulating facilities to be installed in a processing station to be located on the outskirts of the Taixing city centre. The new processing station will have a designed daily capacity to supply 66,000 m³ of natural gas. It is expected that natural gas (in the form of CNG) will be supplied to Taixing Xinao by transporting CNG using CNG trucks to its processing station to replace LPG. The pressure of the CNG will then be reduced to the requisite level at such station before delivery to end users via the main pipelines. It is currently intended that such CNG will be supplied to Taixing Xinao by Yancheng Xinao CNG (please refer to the paragraph headed "Other major group companies – Yancheng Xinao CNG" below for further details).

It is currently intended that Taixing Xinao will commence gas supply to its customers from June 2002 onwards.

Zouping Xinao (Shandong Province)

Zouping Xinao is a wholly owned foreign enterprise of Shandong BVI established on 21 January 2002. Prior to the establishment of Zouping Xinao, 鄒平縣根基燃氣有限公司 (Zouping County Genji Gas Company Limited*, "Zouping Genji") supplied piped LPG to a small number of customers in Zouping County. On 22 December 2001, Shandong BVI entered into an agreement with Zouping Genji Gas to acquire its assets and liabilities (including accounts receivable, accounts payable, short-term bank loans, receipt in advance, inventories and construction in progress) for a consideration of RMB2,250,000. The consideration was determined after arm's length negotiations between the Group and Zouping Genji. It is expected that Zouping Xinao will continue to supply piped LPG to these customers after the transfer. The supply of piped LPG will be replaced by natural gas at a later stage as described below. Zouping Xinao has the exclusive right to supply piped gas to the Zouping county centre. The Zouping county centre has a population of approximately 113,000 (comprising a total of approximately 38,000 households) as at the end of 2000. The Zouping County People's Government anticipates that the population of Zouping county centre for 2010 will increase by approximately 94.5% to approximately 220,000 (comprising a total of approximately 73,000 households). Zouping is a county located in the middle of Shandong Province and is approximately 60 km northeast of Jinan.

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The initial phase of piped gas development of Zouping Xinao covers the Zouping county centre and involves the investment in the construction of main pipelines with CNG pressure regulating facilities to be installed in a processing station to be located on the outskirts of the Zouping county centre. It is expected that natural gas (in the form of CNG) will be supplied to Zouping Xinao by transporting CNG using CNG trucks to its processing station. The pressure of the CNG will then be reduced to the requisite level at such station before delivery to end users via the main pipelines. It is currently intended that such CNG will be supplied to Zouping Xinao by Xinao Gas Development (please refer to the paragraph headed "Other major group companies – Xinao Gas Development" below for further details).

It is currently intended that Zouping Xinao will commence gas supply to its customers from October 2002 onwards.

Laiyang Xinao (Shandong Province)

Laiyang Xinao is a Sino-foreign equity joint venture established on 3 April 2002 and is owned as to 95% by Shandong BVI and 5% by 萊陽市煤氣公司(Laiyang City Coal Gas Company*, a state-owned enterprise engaged in the sale of LPG and gas related business). Laiyang Xinao has the exclusive right to supply piped gas to the Laiyang city centre (which includes the Industrial Park). As at the end of 2000, Laiyang city centre has a population of approximately 249,000 (comprising a total of approximately 83,000 households) which is equivalent to the estimated population of Laiyang city centre for 2010 by the Laiyang City People's Government. Laiyang is a city located in the middle of Shandong Peninsular, Shandong Province and is approximately 90 km southwest of Yantai.

The initial phase of piped gas development of Laiyang Xinao covers the Laiyang city centre and involves the investment in the construction of main pipelines with CNG pressure regulating facilities to be installed in a processing station to be located on the outskirts of the Laiyang city centre. The new processing station will have a designed daily capacity to supply 50,000 m³ of natural gas. It is expected that natural gas (in the form of CNG) will be supplied to Laiyang Xinao by transporting CNG using CNG trucks to its processing station. The pressure of the CNG will then be reduced to the requisite level at such station before delivery to end users via the main pipelines. It is currently intended that such CNG will be supplied to Laiyang Xinao by Xinao Gas Development (please refer to the paragraph headed "Other major group companies – Xinao Gas Development" below for further details).

It is currently intended that Laiyang Xinao will commence gas supply to its customers from July 2002 onwards.

Yancheng Xinao (Jiangsu Province)

Yancheng Xinao is a Sino-foreign equity joint venture established on 3 April 2002 and is owned as to 80% by Jiangsu BVI and 20% by 上海岩鑫實業投資有限公司 (Shanghai Yanxin Enterprise Investment Company Limited*), a PRC company engaged in, amongst other things, sale of gas, trading of vehicle components and building material. Yancheng Xinao has the right to operate piped gas distribution business in Yancheng City. The Yancheng City has a population of approximately 630,000 (comprising a total of approximately 210,000 residential households) at the end of 2000. It is anticipated that the population of Yancheng City will exceed 1,000,000 (comprising a total of approximately 333,000 residential households) in five years' time. Yancheng is a city located in the eastern part of Jiangsu Province and is approximately 125 km northeast of Yangzhou .

THE GROUP'S BUSINESS

The initial phase of the piped gas development of Yancheng Xinao covers the northern part of Yancheng City and involves the investment in the construction of main pipelines with pressure regulating facilities to be installed in a processing station to be located on the outskirts of Yancheng. It is expected that Yancheng Xinao will purchase gas directly from gas fields located near to Yancheng.

It is currently intended that Yancheng Xinao will commence gas supply to its customers from October 2002 onwards.

DESCRIPTION OF PROJECT JINGZHOU

As disclosed in the Prospectus, Jingzhou BVI entered into a Sino-foreign joint venture contract with 荊州市城市建設投資開發公司(Jingzhou City Urban Construction Investment Development Company ("Jingzhou Investment"), a state-owned enterprise engaged in city construction investment) on 23 March 2001 relating to the establishment of Jingzhou Xinao. Jingzhou Xinao will be owned as to 80% by Jingzhou BVI and 20% by Jingzhou Investment for the purpose of providing piped gas to Jingzhou, which was previously undertaken by 荊州市燃氣總公司(Jingzhou City Gas Corporation*) in connection with the supply of coal gas to Jingzhou.

As at the Latest Practicable Date, Jingzhou Xinao has not yet been established as the Group is in the process of renegotiating with Jingzhou Investment with a view to seek more favourable terms for the Group. Once the terms are finalised, the Group will proceed to establishing Jingzhou Xinao which is subject only to obtain approval from the relevant foreign trade and economic co-operation department in Jingzhou.

OTHER MAJOR GROUP COMPANIES

Xinao Gas Development

On 26 June 2001, the Group established Xinao Gas Development (a wholly owned foreign enterprise of Langfang BVI) to centralise purchases of CNG and deliveries of CNG by the Group to those Project Companies which use CNG as the principal source of gas supply.

Xinao Gas Development is currently responsible for the purchase and delivery of CNG for Beijing Xinao, Jingchang Xinao, Jinggu Xinao, Qingdao Xinao, Xincheng Xinao and Zhucheng Xinao. Xinao Gas Development will arrange the purchase and deliver CNG for Yantai Xinao, Zouping Xinao and Laiyang Xinao once these companies commence gas supply to its customers. Xinao Gas Development uses CNG trucks to collect, transport and deliver CNG to the processing stations of the relevant Project Companies. As at 28 February 2002, the Group owned a total of 10 tractors and 17 CNG storage trailers.

To leverage on its experience in natural gas compression and transportation, Xinao Gas Development also pursue business opportunities to individually supply CNG to large gas consumers such as industrial customers and act as wholesaler for independent residential gas distributors located outside the Group's Operational Locations.

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Xinao Gas Development currently obtains its supply of natural gas (in the form of CNG) from various sources using CNG trucks. The table below sets out the gas purchase agreements entered by Xinao Gas Development:

Date of agreement	Supplier	Quantity	Term
24 July 2001	河南中原綠能高科有限責任公司 (Henan Zhongyuan High Technology Company Limited*)	7,200,000 m ³ per annum (in the form of LNG)	3 years expiring 31 December 2005
21 September 2001	中國石油化工股份有限公司 江蘇油田分公司 (China Petrochemical Group Corporation Jiangsu Oil Field Company*)	15,000,000 m ³ per annum	10 years from the date of gas supply
18 November 2001	北京天然氣集輸公司北京中油匯園 燃氣汽車技術開發有限公司 (Beijing Natural Gas Transportation Zhongyou Huiyuan Gas Motor Technology Development Company*)	According to usage	20 November 2002
1 January 2002	Langfang Xinao	25,000,000 m ³ per annum	31 December 2002
22 February 2002	勝利油田勝大集團油氣總公司 (Shengli Oil Field Shengda Group Oil and Gas Corporation*)	20,000 m ³ per day	15 years expiring 3 November 2015

Yancheng Xinao CNG

Jiangsu BVI entered into a Sino-foreign joint venture contract with 鹽城市天然氣開發利用有限公司 (Yancheng City Natural Gas Development and Usage Company Limited*, a PRC company engaged in the sale and processing of natural gas) on 28 February 2002 relating to the establishment of Yancheng Xinao CNG. Yancheng Xinao CNG will be owned as to 50% by Jiangsu BVI and 50% by Yancheng City Natural Gas Development and Usage Company Limited and, upon its establishment, Yancheng Xinao CNG will be engaged in the production, transportation and sale of CNG. The Yancheng City People's Government has approved the operation of CNG business by Yancheng Xinao CNG. As at the Latest Practicable Date, Yancheng Xinao CNG has not yet been established. It is currently intended that Yancheng Xinao CNG will commence CNG supply from August 2002 onwards and will be responsible for the supply and delivery of CNG for Yangzhou Xinao and Taixing Xinao.

Xinao Gas Equipment

Xinao Gas Equipment is a wholly owned foreign enterprise of Langfang BVI established on 24 June 2001 to produce stored value card gas metres primarily for the consumption by the Project Companies. The establishment of Xinao Gas Equipment signifies a vertical integration of the Company's gas business and such integration has already produced cost savings to the Company in 2001.

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Since its establishment and up to 31 December 2001, Xinao Gas Equipment has produced 40,121 units of stored value card gas metres and as at the Latest Practicable Date, Xinao Gas Equipment has an annual capacity to produce 100,000 units of stored value card gas metres. Such capacity is expected to be sufficient for the Group's consumption in 2002. It is currently envisaged that Xinao Gas Equipment will extend its customer base and sell stored value card gas metres to customers outside the Group in 2002.

SALES AND MARKETING

The Group's head office is responsible for structuring the Group's overall sales and marketing strategies. The individual sales and marketing team of each Project Company works together with the head office team to structure an appropriate plan with reference to a specific Operational Location's situation and needs. The sales and marketing team is responsible for company imaging and brand building as well as promoting the advantages and concept of using natural gas as a necessary part of modern day life. Shortly after a Project Company is established, the Group will implement a series of promotional campaigns (which may include joint promotional campaigns with the local government) to increase public awareness of piped gas in an Operational Location. At around the same period, the Group will also commence active marketing negotiations on the terms of supply contracts with target customers with the aim of entering into supply contracts with potential customers as soon as possible. The Group's customers can be classified into two broad categories, namely (i) residential customers and (ii) commercial and industrial customers. Different marketing strategies are adopted for different customer groups.

As at 28 February 2002, the Group has made gas connections to a total of 110,892 households and 358 commercial and industrial sites (connected to gas appliance facilities with a total installed designed daily capacity of approximately 270,455 m³). For each of the three financial years ended 31 December 2001, the Group's largest customer accounted for approximately 7.6%, 11.0% and 3.3% of the Group's total turnover, respectively. For the same period, the Group's five largest customers accounted in aggregate for approximately 22.3%, 30.3% and 11.6% of the Group's total turnover, respectively. Save for Langfang Xincheng Property Development Company Limited, none of the Directors, their respective associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) has any interest in any of the five largest customers of the Group.

Residential customers

Gas is primarily used by residential owners for cooking and water and space heating. The Group focuses on marketing to property developers, government departments and organisations and state-owned enterprises as these entities enter into master supply contracts with the Group for the connection of gas to all the units within a residential development (new or existing, owned by such entities or their respective employees). These entities are responsible for, or coordinate, the advance payment of connection fees to the Group, while gas usage charges are paid by the individual users.

In respect of new residential developments, connection fees are collected in advance by instalment based on the percentage-of-completion of the pipeline construction work. The Group generally receives full payment of connection fees once construction is completed irrespective of whether the units are sold or occupied. The actual supply of gas will, however, only commence after the unit is occupied.

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The Group also markets to owners' committees of existing buildings without piped gas supply. Representatives of the owners' committees will consult individual households as to whether they wish to have piped gas supply and coordinate the collection of connection fees from the users on the Group's behalf. Both connection fees and gas usage charges are payable in advance by the individual users.

Commercial and industrial customers

Commercial customers use natural gas primarily for heating, air conditioning, water heating and cooking purposes. These customers include owners of hotels, restaurants, office buildings, shopping centres, hospitals, educational establishments, sports and leisure facilities and exhibition halls. Natural gas has a wide variety of applications for industrial customers such as fuelling industrial boilers, furnaces, ovens, incinerators, foundries and steamers as well as water and space heating in staff canteens and dormitories within the industrial customers' premises. The Group enters into supply contracts with these customers for the connection of gas to their premises, and both connection fees (payable in advance) and gas usage charges (payable monthly in arrears) are borne by such customers.

Although the existing number of commercial and industrial customers are less than the number of residential customers, these customers are equally important to the Group as they are high volume gas users. The Directors are confident that with adequate sales and marketing efforts, the number of commercial and industrial customers will gradually increase in the future.

PRICING

Connection fees are determined after a detailed analysis of factors such as estimated capital expenditure, number of users, growth in penetration rates, income levels and affordability of local residents. The Group arrives at the gas usage charges after taking into consideration the wholesale price of gas, operating costs, the price of substitute products and the purchasing power of local residents. Connection fees and gas usage fees are subject to the approval of the local state price bureau. Future price increases are also subject to the same approval process. In considering applications for an increase in gas usage charges, the local state price bureau may consider factors such as increases in the wholesale price of gas or operating expenses, inflation, additional capital expenditure, and whether the profit margin remains fair and reasonable.

For each of the three financial years ended 31 December 2001, connection fees accounted for approximately 72.8%, 82.8% and 76.8% of the Group's total turnover, respectively. Gas usage charges accounted for approximately 27.1%, 16.8% and 21.0% of the Group's total turnover for each of the three financial years ended 31 December 2001, respectively. Connection fees and gas usage charges are usually settled in Renminbi. For each of the three financial years ended 31 December 2001, the amount of bad debts recorded by the Group were approximately RMB270,000, RMB227,000 and RMB2,180,000, respectively. These amounts mainly represent specific provision made on trade receivables as a result of management's periodic review of debtors' ageing report. Specific provision will be made against those debtors which the management consider to have recoverability problem.

Connection fees

The Group charges residential customers a flat connection fee for connections made in respect of each type of gas appliance, namely cooking stoves, water heaters and boilers, the latter

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of which provides both space and water heating. The level of connection fees and whether such fees are inclusive of a particular gas appliance varies among Operational Locations and are approved by the relevant local state price bureau. In the event supply contracts are entered into for the connection of gas to a large number of households within a residential development, discounts of up to 10% of the approved fee payable may be offered, the extent of which will be subject to negotiation and agreement between the contract parties.

For commercial and industrial customers, the connection fee is determined based on the designed capacity of the gas appliance facilities (on a per cubic metre per day basis) installed at the customers' premises. Should additional appliances be installed subsequently, these customers are required to pay additional connection fees to reflect the additional capacity installed. Generally, if gas usage volume is expected to be large, discounts of 5% to 25% of the approved fee payable may be offered, the extent of which will be subject to negotiation and agreement between the contract parties. When entering into master supply contracts for mass connections, the Group usually requires the payment of deposit from customers while the balance is payable in accordance with the terms set out in the contracts. Credit term may be given to customers for these master supply contracts. In determining the credit amount and period to be offered to its customers, the Group considers factors relating to such customers such as the financial position, length of business relationship, scale and nature of business operation and the size of contracts. Approval from the general manager is usually required for the credit amount and period. The length of credit period normally ranges between one to three months (in some cases up to 12 months) and are determined on a customer by customer basis. In the event customers default in the payment of connection fees, the Group will not start the supply of gas to these customers until the connection fees are fully paid. The deposit received from customers upon the signing of supply contracts which would normally cover the cost of the Group.

The table below sets out the approved connection fees for each Project Company as at 28 February 2002:

Name of Project Companies	Residential users			Commercial & industrial users
	Cooking stove (RMB/household)	Water heater (RMB/household)	Boiler (RMB/household)	
Langfang Xinao	3,200 ^(Note 1)	2,200	2,500	1,200
Liaocheng Xinao	2,400	740	n.a.	680
Beijing Xinao	3,300 ^(Note 1)	1,800	2,500	600
Huludao Xinao	2,350	n.a.	4,000	900
Jingchang Xinao	3,500	n.a.	n.a.	600
Jinggu Xinao	3,300 ^(Note 1)	n.a.	n.a.	600
Qingdao Xinao	2,600	n.a.	n.a.	n.a.
Xincheng Xinao	2,600	n.a.	n.a.	1,000 ^(Note 2)

Notes:

- (1) Inclusive of relevant gas appliance.
- (2) Pursuant to the approval granted, the approved connection fees for hospitals, schools and other social welfare organisations are RMB800 per day per m³.
- (3) As at the Latest Practicable Date, none of Zhucheng Xinao, Yantai Xinao, Bengbu Xinao, Yangzhou Xinao, Taixing Xinao, Zouping Xinao, Laiyang Xinao and Yancheng Xinao has obtained the relevant approval as these Project Companies are in the process of applying for approval from the relevant local state price bureau.

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Gas usage charges

Gas usage charges are based on actual usage on a per cubic metre basis. The gas usage charges per cubic metre vary between Operational Locations, and the payment mechanism between different categories of customers is different.

Since September 1996, residential customers of Langfang Xinao have purchased gas units in cash at the Group's sales outlet with details of the prepaid gas units stored electronically in a stored value card. The stored value card is inserted into a stored value card gas metre installed at the user's premises to activate the gas supply. Units of gas used are deducted from the stored value card. When the level of prepaid gas units drops to a certain level (currently pre-set at 3 m³), the gas metre will produce a sound signal to remind the customer to replenish the value stored in the stored value card. The same payment mechanism is used by the other Project Companies.

For those residential customers without a stored valued card gas metre installed (amounting to 29,848 households) and for commercial and industrial customers, payment for gas usage charges are made in arrears. Gas metres that record actual gas consumption are installed at the users' premises and metre readings are taken physically by the Group every month. Monthly bills based on the prior month's actual usage are then sent to customers. In general, settlements are received by the Group about one week from the date of billing. In the event customers default in payment of gas usage charges, gas supply will be suspended within one month of billing. No customers' gas supply was suspended as a result of default in payment during the Track Record Period. In respect of commercial users with large gas usage volume, the Group may offer discounts of 14% to 30% of the approved charges, the extent of which will be subject to negotiation and agreement between the parties.

The table below sets out the approved gas usage charges (inclusive of value added tax of 13%) for each Project Company as at 28 February 2002:

Name of Project Companies	Residential users (RMB per m ³)	Commercial & industrial users (RMB per m ³)
Langfang Xinao	1.5	1.7
Liaocheng Xinao	1.8	2.0
Beijing Xinao	2.9	2.9
Huludao Xinao	2.1	3.0
Jingchang Xinao	2.9	2.9
Jinggu Xinao	2.9	2.9

Note: As at the Latest Practicable Date, none of Qingdao Xinao, Xincheng Xinao, Zhucheng Xinao, Yantai Xinao, Bengbu Xinao, Yangzhou Xinao, Taixing Xinao, Zouping Xinao, Laiyang Xinao and Yancheng Xinao has obtained the relevant approval as these Project Companies are in the process of applying for approval from the relevant local state price bureau.

PURCHASES

The main categories of purchases made by the Group are gas, pipes, machinery, equipment and gas appliances. Save for the purchases of certain equipments by the Group from Xinao Machinery, all of the materials purchased by the Group were acquired from independent third parties during the Track Record Period.

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For each of the three financial years ended 31 December 2001, the Group's largest supplier accounted for approximately 35.5%, 23.1% and 10.7% of the Group's total purchases, respectively, and the Group's five largest suppliers accounted for approximately 75.9%, 59.8% and 29.1% of the Group's total purchases, respectively. None of the Directors, their respective associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) has any interest in any of the five largest suppliers of the Group.

The Group has established firm business relationships with its major suppliers for long periods (ranging from one to nine years). The Directors believe that the Group has good relationships with its suppliers and the Group has not experienced any difficulty in the sourcing of natural gas or other major supplies.

Gas

The Group has entered into gas purchase agreements to purchase natural gas (the terms of which range from one to 15 years) from independent third parties. The wholesale price of natural gas is agreed between the suppliers and the Group with reference to the wellhead price, distance of transportation of gas, purification fees and the supplier's operating costs. The wellhead price of natural gas, which is determined by the State Development and Planning Commission with approval from the State Council, is currently set at RMB0.90 per m³ with a 10% allowance for upward or downward adjustments as a result of negotiations between suppliers and distribution companies. LPG is purchased when appropriate at the prevailing market price.

The quantity of natural gas to be supplied to the Group by its suppliers is usually stated in the gas purchase agreements. The Group is only required to pay the actual quantity purchased and there is no penalty to the Group should the Group purchase less than the stated amount. The Directors are satisfied that the stated quantities of natural gas as set out in the relevant existing gas purchase agreements are sufficient for the potential demand of gas by the respective Project Companies.

Payment for natural gas by the Group to its suppliers is made monthly in advance and is based on the estimated purchase submitted quarterly by the Group. Any surplus is recorded by a metre installed at the point where the Group's intermediate pipelines connect with the suppliers' long distance pipelines. Payment for gas purchased is made by the Group by cheques, bank drafts or remittance denominated in Renminbi in accordance with the gas supply agreements. For each of the three financial years ended 31 December 2001, the purchase cost of gas accounted for 27.6%, 25.5% and 26.9% of the Group's cost of sales, respectively.

Pipes, machinery and equipment

The Group purchases pipes of various diametres and thicknesses for installation in different segments of the gas pipeline infrastructure (the specifications of which must comply with PRC standards and regulations). The Group also purchases machinery and equipment, both domestically and abroad.

Pipes are purchased domestically and payments are settled in Renminbi with credit terms ranging from 30 to 90 days. Machinery and equipment are sourced domestically and externally from the United States and Italy. Payments for equipment and machinery purchased are primarily settled in Renminbi (in the case of domestic purchases) and, to a lesser extent, US dollars (in the case of overseas purchases) by letters of credit or telegraphic transfer with credit terms ranging

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from 30 to 90 days. Payments settled in Renminbi represented approximately 81.8%, 100% and 89.6% of the total pipes, machinery and equipment purchases for each of the three financial years ended 31 December 2001.

Gas appliances

As residential customers often require the Group to provide gas appliances, the Group purchases gas appliances in bulk directly from manufacturers in the PRC and holds a limited amount of stock. The Group will provide customers repair and maintenance services to the gas appliance facilities it has supplied and such gas appliance facilities have a warranty period of one year. Payments are usually settled by bank drafts denominated in Renminbi one month after receipt of goods. The Directors believe that the Group has good relationships with its suppliers.

SAFETY AND QUALITY CONTROL

Safety

The Group places great emphasis on safety control and has, accordingly, adopted a safety administrative system and set up a safety department to oversee safety issues for the Project Companies. The Group carries out, through the Project Companies, routine inspection of the branch pipelines, customers' pipelines, gas metres and gas appliances at the customers' premises twice a year. These semi-annual inspections are free unless major repairs are required in which case the Group charges the customers for labour, replacement parts and other materials used for the repairs.

The Group believes in educating users about safety procedures. Accordingly, before gas is actually supplied, the Group will give a thorough explanation of safety procedures to users, and will arrange regular seminars or distribute brochures and booklets on safety for end users. The Group has in operation a 24-hour hotline for enquiries and reporting of emergency matters.

In order for the Group to monitor the operations of the pipelines, in particular, gas usage, gas leakages, or any other irregularities, the Group collects information about the temperature, pressure and volume of gas from key points along the main pipelines. The information is collated in the control centre located in the head office of each Operational Location for analysis. In Langfang, a computerised system known as Supervisory Control and Data Acquisition system ("SCADA") is used whereby a number of small detectors are installed along the main pipelines to collect such information and send it back to the control centre electronically. In other locations, the information collection is currently carried out manually by the Operational Location's own personnel. The Group plans to install the SCADA system in Liaocheng, Huludao and Bengbu in 2002. Each Project Company conducts a major inspection of its pipelines, processing station(s) and other equipment at least once a year. Should gas leakages or any other irregularities be detected, the Group will take remedial action immediately.

Due to the Group's strict implementation of safety control procedures, there have been no major accidents which have resulted in serious injury or death since the Group began operations in 1993.

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Quality control

Quality control begins in the design and construction phase of the gas supply infrastructure. The quality control team regularly makes inspection visits and conducts tests to ensure that construction work meets the Group's required standards.

The Group also has strict quality control procedures for the sourcing of raw materials. As such, the Group only purchases from its approved list of qualified suppliers and such suppliers have fulfilled the relevant requirements in accordance with national standard.

In order to monitor the quality of gas purchased by the Group, the Group obtains gas composition reports regularly from its gas suppliers with details on the heat content and composition of impurities. The Group also conducts tests on the gas purchased in order to verify the quality.

RESEARCH AND DEVELOPMENT

The Group's in-house research and development team comprises members who specialise in the fields of energy, mechanical and electronic engineering. Areas under research and development include:

- methods to increase operating efficiency and safety standards;
- expansion of the applications of natural gas, such as gas fuelled air conditioners, washing machines and dryers, and use of CNG in motor vehicles; and
- improvement of gas storage and transportation methods.

Furthermore, to closely track gas-related developments overseas, representatives from the research and development department regularly attend international gas conferences and have exchange programmes with overseas gas companies.

There were no research and development expenses for the financial year ended 31 December 1999. Research and development expenses for the two financial years ended 31 December 2001 amounted to approximately RMB762,000 and RMB752,000 respectively.

COMPETITION

Due to the nature of the piped gas supply business, where substantial capital investment and extensive physical installation of gas pipeline infrastructure are required, it is not economically or practically feasible for more than one distribution company to operate in one location. Therefore, the local government will normally grant exclusive rights or rights of first refusal to a selected distributor to operate in a location. Once the Group has identified a potential Operational Location, it will negotiate with the local government to obtain an exclusive right or right of first refusal to supply gas to that Operational Location, which might cover the whole or the most densely populated areas of such Operational Location. In the process of securing such exclusive rights or rights of first refusal, the Group may face competition from other distribution companies which include stated-owned companies and non state-owned enterprises. Once the Group has successfully obtained an exclusive right or right of first refusal, that Operational Location is considered to be secure and the Group will not face competition from another piped gas distribution company. Due to the Group's extensive experience and sound track record of safe and reliable piped gas supply to end-

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users, the Directors believe that the Group will be able to successfully obtain exclusive rights or rights of first refusal to supply gas to new Operational Locations notwithstanding inevitable strong competition from other companies. As at the Latest Practicable Date, the Project Companies have obtained exclusive rights or rights of first refusal to supply gas to their respective Operational Locations.

After the Group secures an Operational Location, the Group faces competition from existing providers of other fuel substitutes such as bottled LPG, coal and to a lesser extent electricity, as electricity for heating purposes is more expensive than gas and less popular for cooking purposes. The Directors believe that with the PRC Government's planned phasing out of the use of coal as a result of its environmental policies, and the comparative advantages of natural gas over coal and LPG as a safer, cleaner and more convenient form of fuel, competition from other fuel substitutes does not represent a serious threat to the Group's business. From a cost perspective and on an energy adjusted per unit basis, natural gas is more economical than bottled LPG and electricity.

Each of Easywin, Mr. Wang and Ms. Zhao (the "Management Shareholders") and XGCL has entered into a non-competition deed (conditional upon the listing of, and commencement of dealing in, the Shares on the Main Board) on 18 April 2002. Under the non-competition deed, each of the Management Shareholders and XGCL has irrevocably undertaken and covenanted with the Company that it/he/she will not and will procure that its/his/her associates shall not, directly or indirectly, during the period from the date on which the non-competition deed shall take effect and until the date on which the non-competition deed is terminated in accordance with the terms therein, carry on for its/his/her own accounts or for any other person, firm or organisation any business which is or may be in competition with (i) the business currently carried on by any member of the Group; and (ii) the business relating to gas supply (including but not limited to the investment in, and the operation, design, construction and management of gas pipeline infrastructure and the sale and distribution of piped gas) in the PRC (the "Restricted Business").

The non-competition deed given by each of the Management Shareholders and XGCL does not apply to the following:

- (i) the holding of shares or other securities by each of the Management Shareholders and XGCL and its/his/her associates issued by any member of the Group; and
- (ii) the holding of shares or other securities by each of the Management Shareholders and XGCL and its/his/her associates in any company whose securities are listed on a stock exchange and the total securities beneficially held by each of the Management Shareholders and XGCL and (as the case may be) its/his/her associates (other than members of the Group) whether taken together as a whole or singly do not amount to more than 5% of the issued shares or other securities of the company in question.

The non-competition deed given by each of the Management Shareholders and XGCL will remain effective until (i) the Management Shareholders and XGCL and their associates (individually or taken as a whole) cease to be a controlling shareholder and the single largest shareholder of the Company; or (ii) the securities of the Company cease to be listed on the Main Board, whichever occurs earlier.

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CONNECTED TRANSACTIONS

The following transactions will be, or will continue to be, carried out between members of the Group and connected persons of the Company. Following the listing of the Shares on the Main Board, the following transactions will continue to be conducted on the same basis.

(1) Connected transactions which are exempted from disclosure or Shareholders' approval requirements under Rule 14.24 of the Listing Rules

(i) Supply of piped gas to connected persons of the Company

The Group, in the ordinary course of its business, supplies piped gas to connected persons of the Company (being all the executive Directors (other than Mr. Cheung Yip Sang and Mr. Cheng Chak Ngok), Ms. Zhao, 廊坊新奧物業管理有限公司 (Langfang Xinao Property Management Company Limited*, "Langfang Xinao Property Management"), XGCL, 新奧集團太陽能有限公司 (Xinao Group Solar Energy Company Limited*, "Xinao Solar Energy") and 廊坊新奧酒店管理有限公司 (Langfang Xinao Hotel Management Company Limited*, "Langfang Xinao Hotel Management")) for their own consumption with gas usage charges which are not more favourable than those charged by Langfang Xinao to independent third parties. As each of Langfang Xinao Property Management, XGCL, Xinao Solar Energy and Langfang Xinao Hotel Management is controlled by Mr. Wang, each of these companies is a connected person of the Company. Since the supply of gas by Langfang Xinao to Langfang is a utility business and it is essential for the above mentioned connected persons of the Company to use energy in their ordinary course of business rather than on-sale to external parties, the Directors believe that the supply of piped gas to these connected persons of the Company does not constitute furthering of their business.

The table below sets out the gas usage charges received from each of Langfang Xinao Property Management, XGCL, Xinao Solar Energy and Langfang Xinao Hotel Management by the Group in the three financial years ended 31 December 2001.

	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Langfang Xinao Property Management	4,909	3,927	6,690
<i>As % of net tangible assets of the Group</i>	<i>8.6%</i>	<i>5.6%</i>	<i>1.5%</i>
XGCL	475	525	362
<i>As % of net tangible assets of the Group</i>	<i>0.8%</i>	<i>0.8%</i>	<i>0.1%</i>
Xinao Solar Energy	52	65	46
<i>As % of net tangible assets of the Group</i>	<i>0.1%</i>	<i>0.1%</i>	<i>0.0%</i>
Langfang Xinao Hotel Management	–	125	885
<i>As % of net tangible assets of the Group</i>	<i>–</i>	<i>0.2%</i>	<i>0.2%</i>

(ii) Property leasing agreements

The Group has entered into the following property leasing agreements and supplemental property leasing agreements with connected persons of the Company for:

- (a) the leasing by Langfang Xinao to Langfang Xinao Property Management of certain staff quarters at Yinhe Main Street, Langfang Economic and

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Technical Development Zone, Langfang City, Hebei Province, the PRC (with a total gross floor area of approximately 1,373 m²) at an annual rental of RMB329,611 for a term of four years commencing from 1 January 2001; and

- (b) the leasing by Langfang Xinao to XGCL of certain staff quarters at Yingchun Road, Langfang City, Hebei Province, the PRC (with a total gross floor area of approximately 2,018 m²) at an annual rental of RMB435,823 for a term of four years commencing from 1 January 2001.

The Group did not receive any rental income from Langfang Xinao Property Management or XGCL for the two financial years ended 31 December 2000. For the financial year ended 31 December 2001, the Group received an annual rental of RMB329,611 and RMB435,823 from Langfang Xinao Property Management and XGCL, respectively which represent approximately 0.1% and 0.1% of the net tangible assets of the Group as at 31 December 2001 respectively.

(iii) Trademark licence agreement

XGCL is the owner of the "XINAO" trademark. XGCL has granted Xinao Gas Investment (for itself, the Company and its subsidiaries) (a) a licence to the exclusive use of registered "XINAO" trademarks and logos in relation to gas related businesses, and (b) pre-emptive rights for a licence to the exclusive use of any "XINAO" trademarks registered in the future in relation to the business of the Group at nil consideration.

XGCL has also provided an undertaking to the Company that it will arrange for registration of such class of the "XINAO" trademarks in the PRC as may be required for the registered use by the Company and its subsidiaries of the "XINAO" trademarks and logos for a period of 10 years from 1 January 2001 pursuant to an agreement dated 1 January 2001.

(2) Connected transactions which are subject to disclosure requirements under Rule 14.25(1) of the Listing Rules

(i) Property management service agreements

Langfang Xinao Property Management is engaged in the provision of property management services in the PRC. As Langfang Xinao Property Management is controlled by Mr. Wang, Langfang Xinao Property Management is a connected person of the Company. The Group has entered into the following property management service agreements and supplemental property management service agreements with Langfang Xinao Property Management for:

- (a) the provision of property management services to Langfang Xinao in relation to the management of the premises of the office building erected at the site situated at the junction of Huaxiang Road East and Hongrun Road North, Langfang Economic and Technical Development Zone, Langfang City, Hebei Province, the PRC for an annual management fee of RMB1,172,254 for a term of four years commencing from 1 January 2001; and

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- (b) the provision of property management services to Langfang Xinao in relation to the management of the premises of the office building erected at the site situated at Jinguang Road, Langfang City, Hebei Province, the PRC for an annual management fee of RMB207,746 for a term of four years commencing from 1 January 2001.

There was no transaction between the Group and Langfang Xinao Property Management in the two financial years ended 31 December 2000. For the financial year ended 31 December 2001, the Group paid an aggregate annual management fee of RMB1,056,146 to Langfang Xinao Property Management, representing approximately 0.2% of the net tangible assets of the Group as at 31 December 2001.

(ii) *Property leasing agreement*

The Group has entered into a property leasing agreement and a supplemental property leasing agreement in relation to the leasing by Langfang Xinao to XGCL of the ground floor of the office building erected at the site situated at the junction of Huaxiang Road East and Hongrun Road North, Langfang Economic and Technical Development Zone, Langfang City, Hebei Province, the PRC (with a total gross floor area of 3,299 m²) at an annual rental of RMB1,039,185 plus a reimbursement of management fee on the basis of RMB80 per m² per annum (the aggregate amount being RMB1,303,105 per annum) for a term of four years commencing from 1 January 2001.

The Group did not receive any rental or management fee reimbursement in the two financial years ended 31 December 2000. For the financial year ended 31 December 2001, the Group received an annual rental of RMB1,039,185 and management fee reimbursement of RMB263,920, representing a total of approximately 0.3% of the net tangible assets of the Group as at 31 December 2001.

(3) Connected transactions which are subject to disclosure and Shareholders' approval requirements under Rules 14.25 and 14.26 of the Listing Rules

(i) *Provision of gas connection services to connected persons of the Company*

The Group, in the ordinary course of its business, is expected to provide gas connection services for property developments of certain connected persons of the Company, namely, 廊坊新城房地產開發有限公司 (Langfang Xincheng Property Development Company Limited*, "Langfang Xincheng") and 北京新奧廣廈房地產開發有限公司 (Beijing Xinao Guangxia Property Development Company Limited*, "Beijing Guangxia"), at connection fees agreed, or to be agreed, by reference to the Group's similar transactions with independent third parties and having been arrived at, or to be arrived at, after arm's length negotiations. Langfang Xincheng and Beijing Guangxia are engaged in property development in the PRC. As both Langfang Xincheng and Beijing Guangxia are controlled by Mr. Wang, Langfang Xincheng and Beijing Guangxia are connected persons of the Company. The Group expects that certain connected persons may set up property development business in the future and the Group is expected to provide gas connection services for property developments of these connected persons.

For the three financial years ended 31 December 2001, the turnover derived by the Group from Langfang Xincheng for the provision of gas connection services was approximately RMB3,440,000, RMB11,360,000 and RMB7,785,000 respectively which

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represent approximately 6.0%, 16.3% and 1.7% of the net tangible assets of the Group as at 31 December 1999, 2000 and 2001 respectively. There was no transaction between the Group and Beijing Guangxia during the Track Record Period as Beijing Guangxia was incorporated in September 2001 and did not carry on any business operation during the period since its incorporation and up to 31 December 2001.

(ii) *Acquisition of equipments and assembly services from connected persons of the Company*

The Group, in the ordinary course of business, is expected to purchase equipments (such as CNG storage trailers, gas storage facilities or pressure regulating facilities etc) and assembly services from certain connected persons of the Company, namely, Xinao Machinery and 安瑞科(蚌埠)壓縮機有限公司 (Anruike (Bengbu) Pressure Regulating Equipment Company Limited*, “Bengbu Equipment”), at considerations agreed, or to be agreed, on normal commercial terms. Xinao Machinery is principally engaged in the manufacture, sale, distribution and assembly of petrochemical and gas machinery and equipments and the provision of assembly services. Xinao Machinery became a connected person of the Company following the acquisition of controlling interest by Mr. Wang in December 2000. Bengbu Equipment is principally engaged in the manufacture, sale and distribution of pressure regulating equipments. Bengbu Equipment became a connected person of the Company following the acquisition of 100% interest by Mr. Wang in March 2002.

The Group did not make any purchases from Xinao Machinery for the two financial years ended 31 December 2000. For the financial year ended 31 December 2001, the Group's total purchases from Xinao Machinery was approximately RMB7,755,000, representing approximately 1.7% of the net tangible assets of the Group as at 31 December 2001. The Group did not make any purchases from Bengbu Equipment during the Track Record Period.

Waivers from the Stock Exchange

As the above connected transactions are ongoing, the Directors believe that it would not be practicable to make disclosure or, if necessary, obtain Shareholders' approval on each occasion when every such transaction arises. Accordingly, the Company has applied to the Stock Exchange for a waiver from strict compliance with the requirements of Chapter 14 of the Listing Rules in connection with the connected transactions relating to items (2) and (3) above (the “Transactions”) for a period of three financial years ending 31 December 2004. Such waiver will be granted on the following conditions:

- (i) the Transactions shall be entered into:
 - (a) in the ordinary and usual course of business of the Group;
 - (b) either on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or (where there is no available comparison) on terms that are fair and reasonable so far as the Shareholders are concerned; and
 - (c) in accordance with the terms of the agreements governing the Transactions or (where there are no such agreements) on terms no less favourable than those available to or from independent third parties of the Company;

THE GROUP'S BUSINESS

- (ii) the aggregate amount of each of the Transactions for each of the three financial years ending 31 December 2004 ("Cap Amount") shall not exceed the amount set out below:

Nature of the Transaction	Cap Amount
Property management service agreements (item (2)(i))	RMB1,380,000 per annum
Property leasing agreement (item (2)(ii))	RMB1,303,105 per annum
Provision of gas connection services to connected persons of the Company (item (3)(i))	3% of net tangible assets of the Group
Acquisition of equipments and assembly services from connected persons of the Company (item (3)(ii))	5% of net tangible assets of the Group

- (iii) the independent non-executive Directors shall review the Transactions annually and confirm in the Company's annual report and accounts for the year in question that the Transactions were conducted in the manner as stated in paragraphs (i) and (ii) above;
- (iv) the Company's auditors shall review the Transactions annually and confirm in a letter (the "Letter") to the Board (a copy of which shall be provided to the Stock Exchange) confirming that the Transactions:
- (a) have received the approval of the Board;
 - (b) are in accordance with the pricing policies, if any, as stated in the Company's financial statements; and
 - (c) have been entered into in accordance with the terms of the agreements governing the Transactions or (where there are no such agreements) on terms no less favourable than those available to or from independent third parties of the Company.

Where, for whatever reason, the independent non-executive Directors decline to conduct the review or are unable to give the confirmation as required under paragraph (iii) above and/or the auditors decline to conduct the review or are unable to provide the Letter as required under this paragraph (iv), the Directors shall notify the Stock Exchange promptly; and

- (v) the Company shall provide the Stock Exchange an undertaking that, for so long as the Shares are listed on the Main Board, the Company shall provide the Company's auditors with full access to the relevant records of the Group and shall procure all relevant connected persons to provide its relevant records relating to the Transactions to the Company's auditors for the purpose of the auditors' review of the Transactions referred to in paragraph (iv) above.

If any terms of the Transactions as mentioned above are altered or if the Group enters into any new agreements with any connected persons in the future, the Company must comply with the provisions of Chapter 14 of the Listing Rules governing connected transactions unless it applies for and obtains a separate waiver from the Stock Exchange.

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In the event of any future amendments to the Listing Rules imposing more stringent requirements than as at the date of this document on transactions of the kind to which the Transactions belong including, without limitation, a requirement that such transactions be made conditional on approval by the independent Shareholders, the Company must take immediate steps to ensure compliance with such requirements within a reasonable time.

The Directors (including the independent non-executive Directors) are of the view that each of the connected transactions referred to above has been entered into on normal commercial terms, in the usual and ordinary course of business of the relevant members of the Group and that they are fair and reasonable and in the best interests of the Shareholders taken as a whole.

Having reviewed the information and documents in respect of all the above connected transactions provided by the Company and in reliance upon representations from the Directors, Rothschild is of the view that the transactions described above, which are subsisting and are of a commercial nature, have been entered into in the ordinary course of business of the Group on normal commercial terms and are fair and reasonable as far as the Shareholders taken as a whole are concerned. In reaching its views with respect to the connected transactions described above, Rothschild has placed significant reliance upon the information, documents and representations provided by the Company and the Directors.

USE OF PROCEEDS FROM THE PLACEMENT OF SHARES IN MAY 2001

The Company raised approximately HK\$204 million of net proceeds through the placement of 207 million new Shares at HK\$1.15 per Share in May 2001. Set out below is the intended use of proceeds as stated in the Prospectus:

- (i) as to approximately HK\$109 million for the construction of pipelines;
- (ii) as to approximately HK\$31 million for the construction of processing stations;
- (iii) as to approximately HK\$31 million for the acquisition of interests in Jingchang Xinao, Jinggu Xinao and Qingdao Xinao (please refer to the Prospectus for further details);
- (iv) as to approximately HK\$3 million for developing the internal capability to manufacture stored value card gas metres; and
- (v) as to approximately HK\$30 million as general working capital of the Group to support its ongoing operations and expansion.

The Group's actual use of proceeds for the period since its listing in May 2001 and up to 31 December 2001 was approximately HK\$105 million. The Group will use the remaining unutilised net proceeds of approximately HK\$99 million in accordance with its plans as set out in the Prospectus.

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Set out below is a comparison of the Group's actual use of proceeds for the period since its listing in May 2001 and up to 31 December 2001 and its planned use of proceed as set out in the Prospectus.

	Planned use of proceeds as set out in the Prospectus (HK\$'000)	Actual use of proceeds (HK\$'000)
<i>Sales and operations</i>		
• Pipelines to be constructed	78,000	39,088
• New processing stations to be constructed	21,000	34,628
<i>Research and development</i>		
• Develop internal capability to manufacture stored value card gas metres	3,000	–
<i>Others</i>		
• Acquisition of certain Project Companies	31,000	31,000
	<u>133,000</u>	<u>104,716</u>

The Company has no intention to change its planned use of proceeds and the unutilised proceeds of approximately HK\$28.3 million will continue to be used for the construction of pipelines and processing stations for its Project Companies. Reasons for difference between planned usage of proceeds and actual utilisation are set out below.

(i) Sales and operations

(a) Pipeline construction

Due to effective cost management and improvement in construction work, the Group was able to reduce the overall construction cost for pipelines. The average cost of construction of pipelines was approximately RMB220,000 per kilometre in 2001 compared to an average of approximately RMB325,800 per kilometre in 2000.

(b) Processing station construction

The addition of CNG equipment and facilities in one of the processing stations constructed has resulted in an increase in overall expenditure for the construction of new processing stations.

(ii) Research and development

The Group has used internal resources to fund the development of stored value card gas metres in order to take advantage of the tax benefit offered by the local tax bureau. Pursuant to a taxation policy adopted by the tax bureau of the Langfang Economic and Technical Development Zone, Langfang BVI received approximately RMB211,765 of tax refund from the Langfang local tax bureau for re-investing the dividends earned from Langfang Xinao in the establishment of Xinao Gas Equipment for the purpose of producing stored value card gas metres. The Group intends to use the HK\$3 million originally earmarked for such development as general working capital of the Group to support its ongoing operations and expansion.

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USE OF PROCEEDS FROM THE ISSUE OF NEW SHARES IN MARCH 2002

The Company raised approximately HK\$326 million of net proceeds from the issue of 110 million new Shares at HK\$3.05 per Share in March 2002. Set out below is the intended use of proceeds:

- (i) as to approximately HK\$70 million for the investment in a gas project located in Huaian, Jiangsu Province, the PRC;
- (ii) as to approximately HK\$60 million for the investment in Yancheng Xinao;
- (iii) as to approximately HK\$90 million for the investment in new piped gas distribution projects to be identified in Anhui Province, the PRC;
- (iv) as to approximately HK\$90 million for the investment in new piped gas distribution projects to be identified in Jiangsu Province, the PRC; and
- (v) as to the balance for general corporate purposes, including further investments which are in line with the business objectives of the Company as described in the Prospectus.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Executive Directors

Mr. Wang Yusuo, aged 37, is the co-founder and chairman of the Company and an executive Director. He is responsible for overseeing the Group's overall strategic planning. Mr. Wang has over 15 years of experience in the investment in, and management of, the gas business in the PRC. He graduated from 中國人民大學 (the People's University) in 1994 and is currently studying for a master's degree in Management at the 天津財經學院 (Tianjin College of Finance and Economics). Mr. Wang was a committee member of the 中國土木工程學會城市煤氣分會第七屆理事會 (Seventh Towngas Committee of the China Civil Engineering Society) in 1999 and is currently a member of the 第九屆全國人民政治協商會議 (Ninth National People's Political Consultative Conference) and a member of the 全國工商聯第八屆執行委員會 (Eighth National Industrial and Commercial Conference). He has won various awards including 河北省十大傑出青年 (Hebei's Top 10 Young and Successful Person) and 中國優秀民營企業家 (Outstanding Entrepreneur in China). Mr. Wang is the spouse of Ms. Zhao.

Mr. Yang Yu, aged 44, is an executive Director and the chief general manager 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 exploring further gas investments and markets in the PRC. Prior to joining the Group in 1998, he worked with the 中國石油天然氣管道局 (China Petroleum and Natural Gas Pipelines Bureau) and was an executive director, deputy general manager and chief engineer of 中油龍昌 (集團) 股份有限公司 (Petroleum Long Champ (Group) Company Limited), a company listed in the PRC, a director of 塔里木輸油氣有限責任公司 (Talimu Petroleum and Gas Transportation Company Limited) and 青島勝青輸油有限公司 (Qingdao Shengqing Petroleum Transportation Company Limited). He graduated from the 石油工業部管道局職工學院 (Petroleum and Industrial Ministry Pipeline Bureau Technical Institute) in 1985. He holds a master's degree in banking from 中國人民大學 (Renmin University of China) in 1999. Mr. Yang has over 15 years of experience in the PRC gas industry.

Mr. Zhao Jinfeng, aged 34, is an executive Director and a deputy general manager of the Company. He is the head of the business development division and is responsible for assisting the general manager in managing and implementing the Group's investment projects in the PRC, supervising the safety of the Group's projects, securing gas supply and exploring the piped gas market in the PRC. He graduated from the 農業部鄉鎮企業管理幹部學院 (Management Institute of the Ministry of Agriculture). Prior to joining the Group in 1993, Mr. Zhao worked for 廊坊市機電公司 (Langfang City Electrical Company) as a 物資經濟管理經濟員 (economist for resources management). Mr. Zhao has over nine years of experience in the PRC gas industry. Mr. Zhao is a brother of Ms. Zhao.

Mr. Qiao Limin, aged 43, is an executive Director and a 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 包頭市師範專科學校 (Baotou Education College) and was an assistant lecturer at 廊坊市衛生學校 (Langfang City Health College). He graduated from Baotou Education College in 1984. Mr. Qiao has over nine years of experience in managing gas projects and supervising gas supply operations and safety.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Jin Yongsheng, aged 38, is an executive Director and deputy general manager of the Company responsible for overseeing legal matters of the Group. He graduated from the Tianjin College of Finance and Economics in 1986, specialising in finance. Prior to joining the Group in 1996, he was an assistant professor in 農業部鄉鎮企業管理幹部學院 (Management Institute of the Ministry of Agriculture). Mr. Jin is a qualified practising lawyer in the PRC and has over 10 years of experience in legal practice.

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

Mr. Cheung Yip Sang, aged 35, is an executive Director and deputy general manager of the Company. He holds a bachelor's degree in Legal Studies awarded by 中國人民武裝警察部隊學院 (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 汕頭加丹啤酒有限公司 (Shantou Jiadan Beer Company Limited). Mr. Cheung is experienced in marketing and sales.

Mr. Cheng Chak Ngok, aged 31, is an executive Director and the Company secretary. Prior to joining the Group in November 2000, he worked in an international accounting firm and a freight forwarding company. He graduated from Manchester Metropolitan University with a first class honour bachelor's degree in accounting and finance. He is an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants in England, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators.

Non-executive Director

Ms. Zhao Baoju, aged 36, is the co-founder and a non-executive Director. She has over nine years of experience in investing in gas fuel projects in the PRC. She graduated from the 河北醫學院護士學校 (Hebei Medical College Nursing School) in 1987 and the Chinese Language Faculty of 首都師範大學 (Capital Education University) in 1998. Ms. Zhao is the spouse of Mr. Wang.

Independent non-executive Directors

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

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

DIRECTORS, SENIOR MANAGEMENT AND STAFF

SENIOR MANAGEMENT

Mr. Chen Jiacheng, aged 38, is the executive general manager of the Group. Mr. Chen joined the Group in January 2002 and is responsible for the business administration and management of the Group's gas projects. Prior to this appointment, he was the deputy general manager of XGCL and was responsible for business administration and management. He holds a bachelor's degree in engineering from 西北工業大學 (Northwest Industrial University), a master's degree in business administration from 清華大學 (Qinghua University). Mr. Chen has over 10 years of experience in business administration and management.

Mr. Jiang Yongxin, aged 39, is the Chief Engineer of the Group. He graduated from 華東石油學院 (Huadong Petroleum Institute) in 1985 with a bachelor's degree in engineering and is also a specialist in storage and transportation of petroleum and holds a master's degree in engineering in the storage and transportation of petroleum awarded by the 石油大學 (China Petroleum University). Prior to joining the Group in August 2000, he had worked in the 中國石油天然氣管道科學研究院 (Petroleum and Natural Gas Pipelines Research Institute in the PRC), 北京天然氣集輸公司 (Beijing Natural Gas Transportation Company), and 中國石油天然氣管道工程有限公司 (China Petroleum and Natural Gas Pipelines Engineering Company) as senior engineer. He has received the Award for Advancement in technical know-how from 中國石油天然氣管道局 (China Petroleum and Natural Gas Pipelines Bureau). Mr. Jiang has over 13 years of experience in the gas fuel industry in the PRC.

Mr. Wang Dongzhi, aged 33, is the head of the finance department. Mr. Wang graduated in 1991 with a bachelor's degree in engineering management from 北京化工學院 (Beijing Chemical College) (now known as 北京化工大學 (Beijing Chemicals University)). In 1996, Mr. Wang obtained a bachelor's degree in Economics, and qualified as a PRC Certified Accountant through self study. Before joining the Group in August 2000, Mr. Wang was in charge of the finance department of a Sino-foreign joint venture company, and has extensive experience in treasury and cost management.

Mr. Ju Xilin, aged 44, is the general manager for Beijing and Tianjin areas. He graduated in 1987 from 牡丹江市委黨校 (Mudanjiang City Communist Institute) specialising in Political Science. Prior to joining the Group in January 1996, he worked in state-owned enterprises where he was responsible for the operational management of those enterprises and was the manager of an industrial and trading company, general manager and party secretary of a tire company and has been the party secretary and vice factory manager of 牡丹江紡織廠團委 (Mudanjiang Textile Factory). Mr. Ju has over 20 years of experience in operational management.

Mr. Han Jishen, aged 37, is the general manager of Bengbu Xinao. He graduated from 保定職工學校 (Baoding Staff College) in 1990. Mr. Han joined the Group at the end of 1993 and is responsible for management and operations. He had been the general manager of Langfang Xinao and Huludao Xinao. Mr. Han has over nine years of experience in the gas fuel industry in the PRC.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three members, namely Messrs. Wang Guangtian, Xu Liang and Yu Jianchao.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

STAFF

As at 31 December 2001, the Group had a total of 1,142 staff of which 1,139 are based in the PRC and three are based in Hong Kong. The breakdown of staff by function and geographical location is as follows:

	PRC	Hong Kong	Total
Management	30	–	30
Gas operations (including safety)	490	–	490
Engineering	171	–	171
Sales and marketing	62	–	62
Construction design and research and development	101	–	101
Planning and finance	75	2	77
Administration	153	1	154
Procurement	32	–	32
Business development	25	–	25
	<u>1,139</u>	<u>3</u>	<u>1,142</u>

Relationship with staff

The Group recognises the importance of training its staff. Apart from on-the-job training, the Group regularly provides internal and external training for its staff to enhance their technical or product knowledge.

The Group has not experienced any significant problems with its employees or disruption in its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

Pension scheme

Currently, the Group's PRC employees have all enrolled in the mandatory central provision scheme operated by the PRC Government and the Group's subsidiaries in the PRC contribute approximately 20% of the basic salary of their employees in the PRC to a state-sponsored retirement plan for the employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to the retired employees.

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group contributes a monthly amount to a professionally managed fund equivalent to 5% of the total salary of its full time employees (up to a maximum of HK\$1,000 for each employee). Each employee in Hong Kong is required to contribute 5% of his or her total salary (up to a maximum of HK\$1,000 for each employee) to the scheme and may elect to make voluntary contributions.

Housing benefits

In accordance with the relevant housing reserve fund laws and regulations in the PRC, the Group contributes a monthly amount to a designated account managed by the Group equivalent to 5% of the total salary of its employees. Such funds are to be used by these employees for their future purchase or rental of residential properties for their own occupation. For the three financial years ended 31 December 2001, the Group's contributions to the employees' housing scheme were approximately RMB41,280, RMB42,000 and RMB624,670, respectively. The Group's only housing benefit obligation is the Group's contribution to this housing scheme.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the Directors are aware that the following persons are interested in 10% or more of the Shares:

Name	Number of Shares	Approximate percentage of voting power (%)
Easywin	420,000,000	57
Mr. Wang	420,000,000	57
Ms. Zhao	420,000,000	57

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

SHARE CAPITAL

SHARE CAPITAL

Authorised share capital: *HK\$*

<u>3,000,000,000</u> Shares	<u>300,000,000</u>
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Issued share capital: *HK\$*

<u>737,000,000</u> Shares in issue as at the Latest Practicable Date	<u>73,700,000</u>
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SHARE OPTION SCHEMES

The Company has adopted the Share Option Scheme. A summary of its principal terms is set out in the paragraph headed “Summary of terms of Share Option Scheme” in Appendix IV to this document. In connection with the Introduction and in order to comply with the provisions of the Listing Rules, the Group will, subject to the approval of the Shareholders, adopt the Proposed Share Option Scheme to replace the Share Option Scheme. A summary of the principal terms of the Proposed Share Option Scheme is set out in the paragraph headed “Summary of terms of Proposed Share Option Scheme” in Appendix IV to this document.

GENERAL MANDATE TO ISSUE SHARES

A general unconditional mandate will be proposed to be granted to the Directors at the Annual General Meeting to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal amount of Shares in issue and to be issued (as set out in the above table on share capital); and
- (ii) the aggregate nominal amount of Shares repurchased by the Company under the authority referred to in the paragraph headed “General mandate to repurchase Shares” below.

This mandate does not apply to situations where the Directors allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or Shares to be issued upon the exercise of options granted under the share option schemes of the Company.

This mandate, if approved, will expire:

- (i) at the end of the Company’s next annual general meeting; or
- (ii) at the end of the period within which the Company is required by any applicable laws or the Articles of Association to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

A general unconditional mandate will be proposed to be granted to the Directors at the Annual General Meeting to exercise all the powers of the Company to repurchase Shares with an aggregate nominal value of up to 10% of the aggregate nominal amount of the Shares in issue and to be issued (as set out in the above table on share capital).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which are recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules.

This mandate, if approved, will expire:

- (i) at the end of the Company's next annual general meeting; or
- (ii) at the end of the period within which the company is required by any applicable laws or the Articles of Association to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate and a summary of the relevant Listing Rules, please see the paragraph headed "Further information about the Company – Repurchase by the Company of its own securities" in Appendix IV to this document.

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TRADING RECORD

The following table summarises the Group's combined results for the three financial years ended 31 December 2001 and is prepared on the basis that the Group's equity interest in Langfang Xinao contributed by Mr. Wang and Ms. Zhao had been in existence since 1 January 1999 and throughout the Track Record Period and the Group's additional equity interest in Langfang Xinao and equity interests in other companies since their respective dates of acquisition. The summary should be read in conjunction with the accountants' report set out in Appendix I to this document.

	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover			
Connection fees	38,508	101,282	184,796
Gas usage charges	14,342	20,517	50,594
Sale of gas appliances	73	471	5,170
	52,923	122,270	240,560
Cost of sales	(23,492)	(58,362)	(97,429)
Gross profit	29,431	63,908	143,131
Other revenue	793	945	7,946
Tax refund	2,656	5,180	5,388
Selling expenses	(273)	(2,041)	(4,446)
Administrative expenses	(3,690)	(9,153)	(40,780)
Other operating expenses	(45)	(357)	(1,323)
Profit from operations	28,872	58,482	109,916
Finance costs	(3,300)	(8,112)	(10,318)
Profit before taxation	25,572	50,370	99,598
Taxation	(3,836)	(6,976)	(11,081)
Profit before minority interests	21,736	43,394	88,517
Minority interests	(6,653)	(6,018)	(9,250)
Profit for the year	15,083	37,376	79,267
Dividends	–	30,529	–
Earnings per Share (RMB) (<i>Note</i>)	3.6 cents	8.9 cents	14.3 cents

Note: The calculation of earnings per Share is based on the profits attributable to Shareholders of the relevant years and on 420,000,000 Shares as if those Shares had been outstanding for each of 1999 and 2000 and the weighted average number of 553,446,575 Shares in issue during 2001.

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During the Track Record Period, the Group's results were substantially attributable to Langfang Xinao. For the financial years ended 31 December 1999, the Group's entire results were attributable to Langfang Xinao. Results from each of Liaocheng Xinao, Beijing Xinao and Huludao Xinao have been combined with the Group's results since their respective dates of acquisition following the acquisition by the Group of interests in these companies in 2000. For the financial year ended 31 December 2000, Langfang Xinao remained the major contributor to the Group's profits. For Liaocheng Xinao, Beijing Xinao and Huludao Xinao, approximately five months of the results of these companies were included in the Group's results, and in total contributed to less than 20% of the Group's net profits for the year. For the financial year ended 31 December 2001, Langfang Xinao, Liaocheng Xinao, Beijing Xinao, Huludao Xinao and Qingdao Xinao were the main contributors to the Group's profits.

Turnover

The table below shows the Group's turnover during the Track Record Period:

	1999		2000		2001	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Connection fees	38,508	72.8	101,282	82.8	184,796	76.8
Gas usage charges	14,342	27.1	20,517	16.8	50,594	21.0
Sales of gas appliances	73	0.1	471	0.4	5,170	2.2
Total	<u><u>52,923</u></u>	<u><u>100.0</u></u>	<u><u>122,270</u></u>	<u><u>100.0</u></u>	<u><u>240,560</u></u>	<u><u>100.0</u></u>

Connection fees represent the Group's major source of revenue during the Track Record Period. The Group's results are subject to seasonal factors. Most of the Group's connection works were completed in the second half of the year. This is because in the northern parts of the PRC, which is where the Group's business operations are located, bad weather conditions preclude construction work from taking place in the coldest months (being late December to February), thus most connections are completed by December of each year. Also, demand for gas connections for heating facilities is highest in the few months immediately preceding winter in preparation for the coldest months. Gas consumption is also at its highest between mid-November and mid-March of each year.

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Connection fees

The following table summarises the connection fees of each of the Project Companies for the Track Record Period:

	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Langfang Xinao	38,508	79,161	80,892
Liaocheng Xinao	–	6,939	21,965
Beijing Xinao	–	4,308	18,674
Huludao Xinao	–	10,874	26,622
Jingchang Xinao	–	–	12,224
Jinggu Xinao	–	–	6,072
Qingdao Xinao	–	–	12,994
Xincheng Xinao	–	–	3,811
Zhucheng Xinao	–	–	1,542
	<hr/>	<hr/>	<hr/>
Total	<u>38,508</u>	<u>101,282</u>	<u>184,796</u>

Note: Yantai Xinao, Bengbu Xinao and Yangzhou Xinao have not recorded any connection fees during the financial year ended 31 December 2001 as these Project Companies have not yet commenced the supply of natural gas in 2001. As at 31 December 2001, Taixing Xinao, Zouping Xinao, Laiyang Xinao and Yancheng Xinao have not been established.

Residential customers represent the major contributor to the Group's connection fees, accounting for approximately 68.1% to 87.5% during the Track Record Period.

Gas usage charges

The following table summarises the gas usage charges of each of the Project Companies for the Track Record Period:

	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Langfang Xinao	14,342	17,961	28,601
Liaocheng Xinao	–	786	3,524
Beijing Xinao	–	162	2,128
Huludao Xinao	–	1,608	7,597
Jingchang Xinao	–	–	530
Jinggu Xinao	–	–	346
Qingdao Xinao	–	–	4,111
Xincheng Xinao	–	–	–
Zhucheng Xinao	–	–	3,757
	<hr/>	<hr/>	<hr/>
Total	<u>14,342</u>	<u>20,517</u>	<u>50,594</u>

Note: Yantai Xinao, Bengbu Xinao and Yangzhou Xinao have not recorded any gas usage charges during the financial year ended 31 December 2001 as these Project Companies have not yet commenced the supply of natural gas in 2001. As at 31 December 2001, Taixing Xinao, Zouping Xinao, Laiyang Xinao and Yancheng Xinao have not been established.

For the Track Record Period, approximately 58.8% to 78.4% of gas usage charges were derived from commercial and industrial customers.

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Gross profit margin

The following table summarises the gross profit margin of the Group for the Track Record Period.

	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	52,923	122,270	240,560
Less: Cost of sales	<u>(23,492)</u>	<u>(58,362)</u>	<u>(97,429)</u>
Gross profit	<u>29,431</u>	<u>63,908</u>	<u>143,131</u>
Gross profit margin (%)	55.6%	52.3%	59.5%

During the Track Record Period, the Group maintained a stable gross profit margin of over 50% as the major expense items (including purchase cost of gas and depreciation of pipeline infrastructure and ancillary facilities) of the Group's cost of sales have been stable relative to turnover.

The slight decrease in gross profit margin from approximately 55.6% in 1999 to approximately 52.3% in 2000 was mainly attributable to lower gross profit margin of the three new Project Companies (namely Liaocheng Xinao, Beijing Xinao and Huludao Xinao) acquired in 2000 as these companies charges connection fees at a rate lower than that of Langfang Xinao, being the only Project Company in operation in 1999. Improvement in the gross profit margin from approximately 52.3% in 2000 to approximately 59.5% in 2001 was primarily due to cost savings from the commencement of in-house production of stored value card gas metres from June 2001 onwards.

Year ended 31 December 1999

For the financial year ended 31 December 1999, Langfang Xinao was the only contributor to the Group's results. The Group recorded a turnover of approximately RMB52.9 million and received a sales tax refund of approximately RMB2.7 million, being the refund of sales tax in accordance with PRC tax legislations. During the year, the Group's connection fees reached approximately RMB38.5 million. Connection fees accounted for approximately 72.8% of the Group's turnover and remained the Group's major source of revenue. Approximately 15.2% of the connection fees were derived from commercial and industrial customers. During the year, the number of commercial and industrial customers increased substantially as a result of the adoption of an environmental policy by the Langfang local government which imposed a fine on commercial and industrial entities that use coal as fuel. Thus a large number of these entities converted to the use of natural gas. As at the end of the year, the Group had made gas connections to a total of 30,607 households and 165 commercial and industrial sites.

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In relation to gas usage charges, the Group supplied approximately 11.8 million cubic metres of gas during the year and generated gas usage charges of approximately RMB14.3 million. Gas usage charges represented approximately 27.1% of total turnover. Commercial and industrial customers contributed to a total of approximately 78.4% of gas usage fees during the year.

After deducting the cost of sales for the year of approximately RMB23.5 million, the Group recorded a gross profit of approximately RMB29.4 million. The gross profit margin for the year was approximately 55.6%.

Administrative expenses incurred for the year amounted to approximately RMB3.7 million representing approximately 7.0% of turnover. During the year, the Group's other operating expenses, comprised of bank charges and foreign exchange losses, were approximately RMB45,000.

The Group's profit before minority interests was approximately RMB21.7 million. Net profit attributable to Shareholders was approximately RMB15.1 million representing a net profit margin of approximately 28.5% or approximately 23.5% if the one-off sales tax refund is excluded.

Year ended 31 December 2000

The Group's turnover for the financial year ended 31 December 2000 was approximately RMB122.3 million, of which approximately RMB97.3 million or approximately 79.6% was attributable to Langfang Xinao. The remainder of approximately RMB25.0 million, or approximately 20.4% of turnover was derived from Liaocheng Xinao, Beijing Xinao and Huludao Xinao, which were acquired by the Group in July or August 2000 and approximately five months' results were included in the Group's results. The Group's gross profit margin decreased slightly to approximately 52.3% when compared to the financial year ended 31 December 1999. This was attributable to a lower gross profit margin for the three companies acquired in 2000. These companies have less than two years of operating history and are in the process of building their customer base, whilst making continuous investments in the gas pipeline infrastructure. Furthermore, these companies incurred relatively higher operating, selling and other fixed costs as the optimal operating efficiency and economy of scale have not yet been reached. The Group's net profit margin increased to approximately 30.6% as a result of the increase in the Group's interest in Langfang Xinao from approximately 69% to 95% during the year.

In terms of revenue mix for the period, connection fees and gas usage charges represented approximately 82.8% and 16.8% of total turnover, respectively. The percentage of turnover from connection fees which increased from approximately 72.8% for the financial year ended 31 December 1999 to approximately 82.8% for the financial year ended 31 December 2000 was the result of strong growth in new connections for Langfang Xinao, and also contributions from Liaocheng Xinao, Beijing Xinao and Huludao Xinao, the new members of the Group, which are in their early stage of operations and connection fees represented their major source of income. As at 31 December 2000, the Group had made gas connections to a total of 66,253 households and 242 commercial and industrial sites. In relation to gas usage, the Group supplied approximately 16.9 million cubic metres of gas during the year.

For the financial year ended 31 December 2000, other revenue increased as a result of increases in interest income on cash deposits and pipeline transportation fees. During the same year, the Group's selling expenses increased substantially as a result of marketing and advertising expenses incurred by the three companies acquired by the Group in July or August 2000. As these companies are in their early stages of operations, substantial selling expenses, and in particular,

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advertising and marketing expenses were incurred in order to build up customers' base and to increase the companies' profile and public awareness. In line with the Group's business expansion and taking into account the addition of three companies, administration expenses increased substantially from approximately RMB3.7 million in the financial year 1999 to approximately RMB9.2 million in the financial year 2000. When expressed as a percentage of the Group's revenues, however, administration expenses only increased slightly from approximately 7.0% for the financial year ended 31 December 1999 to approximately 7.5% for the financial year ended 31 December 2000. The Group's other operating expenses for this period were higher than the financial year ended 31 December 1999. This was primarily attributable to higher bank charges and foreign exchange losses. The Group's finance costs also increased during the period which represented interest expenses on additional bank loans taken out by Langfang Xinao to finance capital expenditure and a bank loan taken over as part of the business acquisition of Huludao Xinao.

The stock turnover days for the financial year ended 31 December 2000 were approximately 81 days (1999: approximately 45 days). The higher stock turnover days in 2000 when compared with 1999 were mainly due to the increase in the number of new projects which resulted in a larger amount of stock (such as pipes and gas) being kept for the purposes of making gas connection service and supplying gas. The debtors' turnover days for the two financial years ended 31 December 2000 were approximately one day and 57 days respectively. The Directors do not consider the debtors' turnover day for the year ended 31 December 1999 to be a meaningful analyses for the Group because the Group only had one project in Langfang where a large proportion of the connections were made to existing buildings with payments received in advance. The creditors' turnover days for the two financial years ended 31 December 2000 were approximately 229 days and 249 days respectively. The increase in creditors' turnover days in 2000 was mainly due to the fluctuation in the amount of contracted/non-contracted purchases during the year. The Group normally makes payments according to the purchase contracts for contracted purchases and the payment terms vary from contract to contract while for purchases without contracts, it is common for the suppliers to request settlement before the next purchase. The gearing ratio of the Group has increased from approximately 30.9% in 1999 to 43.6% in 2000. Such increase was mainly attributable to the Group's business expansion in 2000.

For the financial year ended 31 December 2000, Langfang Xinao remained the main contributor to the Group's results. During the year, Langfang Xinao recorded a turnover of approximately RMB97.3 million and a gross profit of approximately RMB51.5 million. Approximately 91.3% and 29.3% of Langfang Xinao's connection fees and gas usage charges, respectively, were derived from residential customers. The balance was derived from commercial and industrial customers. As at 31 December 2000, Langfang Xinao had made gas connections to a total of 44,900 households and 208 commercial and industrial sites. Finance costs were incurred by Langfang Xinao in connection with financing additions to fixed assets. During this period, Langfang Xinao made a contribution of approximately RMB31.4 million to the Group's net profit attributable to Shareholders, representing a growth of approximately 108.3% over the previous year. This result included a government subsidy granted by the local government in respect of income tax paid in prior years of approximately RMB5.2 million.

Liaocheng Xinao was established in June 1999 and after a few months of preparatory work including the construction of essential pipeline infrastructure and ancillary facilities, the supply of gas commenced in December 1999. The Group acquired 90% interest in Liaocheng Xinao from XGCL in August 2000. As at 31 December 2000, Liaocheng Xinao had made gas connections to a total of 4,154 households and 10 commercial and industrial sites. For the period between the date of acquisition and 31 December 2000, Liaocheng Xinao made a contribution of approximately RMB3.6 million to the Group's net profit attributable to Shareholders.

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Beijing Xinao was established in September 1999 and the supply of gas commenced in January 2000. Its construction period was shorter than that of Liaocheng Xinao as CNG trucks are used to supply gas whilst Liaocheng Xinao uses intermediate pipelines, which take longer to construct. The Group acquired 80% interest in Beijing Xinao from XGCL in July 2000. As at 31 December 2000, Beijing Xinao had made gas connections to a total of 2,688 households and five commercial and industrial sites. For the period between the date of acquisition and 31 December 2000, Beijing Xinao made a contribution of approximately RMB1.2 million to the Group's net profit attributable to Shareholders.

Huludao Xinao was established in December 1999 to take over the existing piped gas supply business previously operated by the local city government. The Group acquired 90% interest in Huludao Xinao from XGCL in August 2000. As at 31 December 2000, Huludao Xinao had made gas connections to a total of 14,511 households and 19 commercial and industrial sites. For the period between the date of acquisition and 31 December 2000, Huludao Xinao made a contribution of approximately RMB1.9 million to the Group's net profit attributable to Shareholders.

Year ended 31 December 2001

The Group's turnover for the financial year ended 31 December 2001 was approximately RMB240.6 million, representing an increase of approximately 96.7% from 2000. Such growth was fuelled by an increase in both connection fees through expansion in customer base and gas usage charges due to higher gas consumption. Langfang Xinao, Liaocheng Xinao, Beijing Xinao, Huludao Xinao and Qingdao Xinao were the main contributors to the Group's results for 2001 accounting for approximately 86.8% of the Group's turnover for the year. As the other Project Companies are still in their initial stages of operations, their contributions to the Group's results were, to a certain extent, lesser.

During the year, the Group's connection fees reached approximately RMB184.8 million, representing an increase of approximately 82.5% over the previous year. Such growth was the result of effective marketing and promotional campaigns undertaken by the Project Companies which led to the connection of 41,748 new households and 113 new commercial and industrial sites. As at 31 December 2001, the Group had made gas connections to a total of 108,001 households and 355 commercial and industrial sites. Approximately 68.1% of the connection fees was derived from residential customers and the balance was generated from commercial and industrial customers. In relation to gas usage charges, the Group sold approximately 34.6 million cubic metres of gas during the year and generated approximately RMB50.6 million of income, representing a growth of approximately 1.5 times over the previous year. Approximately 41.2% of gas usage charges was derived from residential customers and the balance was generated from commercial and industrial customers. During the year, the Group sold approximately 14.1 million cubic metres of piped gas to residential customers and approximately 20.5 million cubic metres of piped gas to commercial and industrial customers.

The cost of sales for the year, primarily comprised of purchase cost of gas, depreciation of pipeline infrastructure and ancillary facilities, and labour and material costs for the construction of customers' pipelines, amounted to approximately RMB97.4 million. Gross profit amounted to approximately RMB143.1 million, or a gross profit margin of approximately 59.5%. Improvement in the gross profit margin for the year was partly due to cost savings from the commencement of in-house production of stored value card gas metres from June 2001 onwards.

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For the financial year ended 31 December 2001, other revenues increased as a result of increases in interest income on cash deposit which includes unutilised proceeds from the placement of Shares in May 2001, pipeline transportation fees and the rental and management fees. The Group received RMB4 million of government subsidy in respect of income tax paid by Langfang Xinao pursuant to a favourable policy adopted by the Finance Department of the Langfang Economic and Technical Development Zone adopted in 1999 and approximately RMB1.4 million of tax refund was received by Langfang BVI from the Langfang local tax bureau for re-investing the dividends earned from Langfang Xinao in the PRC.

During the year, the increase in the Group's selling expenses was in line with the Group's expansion. The administrative expenses for the year of approximately RMB40.8 million mainly comprised of salaries, staff benefits, depreciation and amortisation, travelling, insurance, office expenses and utilities. Such increase in administrative expenses was also in line with the Group's expansion. Finance costs totalled approximately RMB10.3 million for the year and represent primarily interest expenses paid on bank loans. These bank loans are mainly used as general working capital of Project Companies.

Net profit for the financial year ended 31 December 2001 also increased significantly to approximately RMB79.3 million, representing an increase of approximately 1.1 times over the previous year or a net profit margin of approximately 33.0%.

The stock turnover days for the financial year ended 31 December 2001 increased to approximately 120 days and such increase was due to the increase in the number of new projects which resulted in extra stocks being purchased for connection works and gas supply. The debtors' turnover days for the financial year ended 31 December 2001 were approximately 94 days. The increase was mainly attributable to the Group's expansion into new Operational Locations where most of the connections were being made to new buildings. Credit terms are usually given to customers that enter into master supply contracts for mass connection and the debtors turnover period increased accordingly. The creditors' turnover days for the financial year ended 31 December 2001 dropped to approximately 232 days and such decrease was mainly due to the fact that the Group's pace of development has increased significantly and the frequency of non-contracted purchases has increased which eventually led to the decrease in creditors turnover days. The Group's gearing ratio for the year ended 31 December 2001 was approximately 17.0%. The significant decrease in the gearing ratio was due to (i) capitalisation of the amount due to the Company's ultimate holding company prior to the Company's listing on GEM in May 2001, and (ii) the proceeds raised from the placement of Shares in May 2001.

Langfang Xinao remained the main contributor to the Group's results for the financial year ended 31 December 2001. Langfang Xinao became a wholly-owned subsidiary of the Group in December 2001 following completion of the acquisition of 5% equity interest in Langfang Xinao from Langfang City Gas. During the year, Langfang Xinao recorded a turnover of approximately RMB110.1 million and a gross profit of approximately RMB62.8 million. Approximately 71% and 31% of Langfang Xinao's connection fees and gas usage charges, respectively, were derived from residential customers. The balance was generated from commercial and industrial customers. As at 31 December 2001, Langfang Xinao had made gas connections to a total of 58,518 households and 240 commercial and industrial sites. Langfang Xinao made a contribution of approximately RMB35.7 million to the Group's net profit attributable to the Shareholders in 2001.

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Liaocheng Xinao was one of the major contributors to the Group's results for the financial year ended 31 December 2001. Liaocheng Xinao recorded a turnover of approximately RMB26.1 million and a gross profit of approximately RMB15.6 million during the financial year ended 31 December 2001. Approximately 64% and 26% of Liaocheng Xinao's connection fees and gas usage charges, respectively, were derived from residential customers. The balance was generated from commercial and industrial customers. As at 31 December 2001, Liaocheng Xinao had made gas connections to a total of 10,347 households and 31 commercial and industrial sites. Liaocheng Xinao made a contribution of approximately RMB11.1 million to the Group's net profit attributable to the Shareholders in 2001.

Beijing Xinao was one of the major contributors to the Group's results for the financial year ended 31 December 2001. Beijing Xinao recorded a turnover of approximately RMB20.8 million and a gross profit of approximately RMB14.9 million during the financial year ended 31 December 2001. During the year, the Group increased its interest in Beijing Xinao by acquiring a total of 15% interest in Beijing Xinao from 北京市密雲化工公司 (Beijing City Miyun Chemicals Company*). Approximately 28% and 37% of Beijing Xinao's connection fees and gas usage charges, respectively, were derived from residential customers. The balance was generated from commercial and industrial customers. As at 31 December 2001, Beijing Xinao had made gas connections to a total of 4,551 households and 17 commercial and industrial sites. Beijing Xinao made a contribution of approximately RMB10.1 million to the Group's net profit attributable to the Shareholders in 2001.

Huludao Xinao was one of the major contributors to the Group's results for the financial year ended 31 December 2001. Huludao Xinao recorded a turnover of approximately RMB34.2 million and a gross profit of approximately RMB18.0 million during the financial year ended 31 December 2001. Approximately 72% and 44% of Huludao Xinao's connection fees and gas usage charges, respectively, were derived from residential customers. The balance was generated from commercial and industrial customers. As at 31 December 2001, Huludao Xinao had made gas connections to a total of 22,537 households and 48 commercial and industrial sites. Huludao Xinao made a contribution of approximately RMB9.6 million to the Group's net profit attributable to the Shareholders in 2001.

Jingchang Xinao was originally established in November 2000 and the supply of gas commenced in December 2000. The Group acquired 80% of the equity interest in Jingchang Xinao from XGCL in August 2001. As at 31 December 2001, Jingchang Xinao had made gas connections to a total of 4,049 households and eight commercial and industrial sites. Jingchang Xinao made a contribution of approximately RMB5.9 million to the Group's net profit attributable to the Shareholders in 2001.

Jinggu Xinao was originally established in August 2000 and the supply of gas commenced in January 2001. The Group acquired 70% of the equity interest in Jinggu Xinao from XGCL in June 2001. As at 31 December 2001, Jinggu Xinao had made gas connections to a total of 2,314 households and six commercial and industrial sites. Jinggu Xinao made a contribution of approximately RMB1.3 million to the Group's net profit attributable to the Shareholders in 2001.

Qingdao Xinao was originally established in October 2000 and the supply of gas commenced in December 2000. The Group acquired 90% of the equity interest in Qingdao Xinao from XGCL in May 2001. As at 31 December 2001, Qingdao Xinao had made gas connections to a total of 3,548 households and four commercial and industrial sites. Qingdao Xinao made a contribution of approximately RMB9.1 million to the Group's net profit attributable to the Shareholders in 2001.

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Xincheng Xinao was established in June 2001 and the supply of gas commenced in October 2001. As at 31 December 2001, Xincheng Xinao had made gas connections to a total of 1,511 households. For the period between the date of establishment and 31 December 2001, Xincheng Xinao made a contribution of approximately RMB0.6 million for the Group's net profit attributable to the Shareholders.

Zhucheng Xinao was established in May 2001 and the supply of gas commenced in November 2001. As at 31 December 2001, Zhucheng Xinao had made gas connections to a total of 626 households and one commercial and industrial site. For the period between the date of establishment and 31 December 2001, Zhucheng Xinao recorded a loss of approximately RMB1.1 million.

As the contractors of each of Yantai Xinao, Bengbu Xinao and Yangzhou Xinao were still in the process of constructing the essential gas pipeline infrastructure and facilities and the supply of gas have not yet commenced at the year end, these companies did not make any contributions to the Group's net profit attributable to the Shareholders for the year. As at 31 December 2001, Taixing Xinao, Zouping Xinao, Laiyang Xinao and Yancheng Xinao have not been established.

Taxation

In accordance with the relevant tax legislations and rules in the PRC, Sino-foreign joint ventures and wholly owned foreign enterprises are liable to pay income tax on net profits. In respect of the Group's Sino-foreign joint ventures and wholly owned foreign enterprises, they are subject to an income tax rate of 15% to 33%. Furthermore, depending on the nature of the enterprise's business and subject to obtaining approval from the relevant tax authority, they may qualify for tax concessions which include tax exemption for two years from the first profit making year (after recoupement of retained losses if any), and 50% reduction for the three years thereafter (i.e. income tax rate of 15%). All of the Project Companies, Xinao Gas Development, Yancheng Xinao CNG and Xinao Gas Equipment qualify for this tax concession. In addition to income tax, value added tax ("VAT") is payable on gas usage charges and sales of gas appliances in the PRC. The net VAT payable is calculated as 13% of revenue from sales of piped natural gas and 17% of revenue from sales of gas appliances after deducting input credit VAT (i.e. VAT paid on cost of goods sold). For the provision of services in the PRC, a business tax of 3% or 5% on revenue is payable.

Langfang Xinao was exempted from income tax for the two financial years ended 31 December 1997 and was taxable at 50% tax reduction (i.e. 15% of net profits) for the three financial years ended 31 December 2000. From the financial year beginning 1 January 2001, Langfang Xinao has paid income tax at the normal rate of 30%. For the financial year ended 31 December 2000, the Group's results include approximately five months of results from Liaocheng Xinao, Beijing Xinao and Huludao Xinao, beginning from their respective dates of acquisition. Liaocheng Xinao, Beijing Xinao and Huludao Xinao became Sino-foreign joint ventures in August 2000 and will, after obtaining approval from the relevant tax authority, enjoy the aforementioned tax concessions from the first financial year when the respective company becomes profit making. In the case where the joint venture only operates for less than six months in its first profit making financial year, it can elect for the tax concession to commence from its first full year of profit making. Liaocheng Xinao and Huludao Xinao have elected for the tax concession to commence for the financial year ended 31 December 2000 and Beijing Xinao will be tax exempted for its first two full profit making years. Therefore, the Group's effective tax rate for the financial year ended 31 December 2000 was less than 15%.

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For the financial year ended 31 December 2001, the Group's results include full year results from each of Langfang Xinao, Liaocheng Xinao, Beijing Xinao and Huludao Xinao and results from each of Jingchang Xinao, Jinggu Xinao, Qingdao Xinao, Xincheng Xinao, Zhucheng Xinao, Yantai Xinao, Xinao Gas Development and Xinao Gas Equipment have been included from their respective dates of acquisition/incorporation. During the year, Langfang Xinao was the only subsidiary of the Group that is liable to pay income tax on net profit at the rate of 30%. Liaocheng Xinao and Huludao Xinao were exempted from income tax for the two financial years ended 31 December 2001 and will be taxable at 50% tax reduction for the three financial years ending 31 December 2004. Beijing Xinao, Jingchang Xinao, Qingdao Xinao and Xinao Gas Equipment have elected for the tax concession to commence for the financial year ended 31 December 2001 and accordingly, are exempted from income tax for the two financial years ending 31 December 2002 and will be taxable at 50% tax reduction for the three financial years ending 31 December 2005. Jinggu Xinao, Zhucheng Xinao and Xincheng Xinao have operated for less than six months in its first profit making financial year and elected for the tax concession to commence in 2002. All of the other group companies in the PRC will, after obtaining approval from the relevant tax authority, enjoy the aforementioned tax concessions from the first financial year when the respective company becomes profit making. Therefore, the Group's effective tax rate for the financial year ended 31 December 2001 was less than 30%.

INDEBTEDNESS

Borrowings

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

Securities and guarantees

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

Contingent liabilities

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

Disclaimers

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

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

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- (iii) any mortgage or charge; or
- (iv) any material contingent liabilities or guarantees.

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

DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Practice Note 19 of the Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current liabilities

As at 28 February 2002, the Group had net current assets of approximately RMB112,033,000. The current assets comprised bank balances and cash of approximately RMB213,462,000, inventories of approximately RMB38,956,000, trade and other receivables of approximately RMB57,225,000, amounts due from customers for contract work of approximately RMB59,851,000 and amounts due from related companies of approximately RMB7,937,000. The current liabilities comprised trade and other payables of approximately RMB100,482,000, amounts due to customers for contract work of approximately RMB19,592,000, amounts due to related companies of approximately RMB3,237,000, tax payable of approximately RMB2,585,000 and current portion of bank loans of approximately RMB139,502,000.

Borrowings and banking facilities

The Group generally finances its operations with internally generated cash flow and by banking facilities.

As at 28 February 2002, the Group had available aggregate banking facilities of approximately RMB197,691,000, all of which have been utilised. Of the utilised facilities, approximately RMB139,502,000 are repayable within one year, approximately RMB57,809,000 are repayable between one to two years and approximately RMB380,000 are repayable between two to five years.

As at 28 February 2002, some of the Group's banking facilities were secured by the Group's property, plant and equipment.

Capital commitments

As at 28 February 2002, the Group had capital commitments of RMB1,625,000 in respect of property, plant and equipment which are contracted for but not provided in the financial information.

Save as disclosed above, there are no capital commitments as at 28 February 2002.

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Directors' opinion of the working capital

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

Foreign exchange liabilities

The Group derived most of its income during the Track Record Period in Renminbi, and most of the assets and liabilities of the Group as of 31 December 2001 were also denominated in Renminbi. As the Group purchases some of the equipment in relation to the piped gas business in foreign currency, a devaluation of Renminbi may have some negative impact on the Group's operations. Given that most of the Group's expenditures are denominated in Renminbi, the Directors do not believe that the Group is significantly exposed to any substantial foreign currency exchange risk and the Group will have sufficient foreign exchange to meet its foreign exchange liabilities as they become due. The Group does not engage in any financial contract or other arrangement to hedge its foreign currency exposure.

PROPERTY INTERESTS

Hong Kong

As at 31 January 2002, the Company leased office premises at Room 4202, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong, with a gross floor area of approximately 34 m² from an independent third party for a term of three years from 1 January 2001 to 31 December 2003.

The PRC

As at 31 January 2002, the Group owned interests in the following properties:

- (i) land and two buildings located in Langfang, Hebei Province with total gross floor area of approximately 14,974 m²;
- (ii) two residential buildings located in Langfang, Hebei Province used as staff quarters with a total gross floor area of approximately 3,391 m²;
- (iii) 12 processing stations located in Langfang, Hebei Province; Miyun, Changping and Pinggu of Beijing Municipality; Liaocheng, Huangdao (Qingdao City), Chengyang (Qingdao City) and Zhucheng of Shandong Province; and Huludao, Liaoning Province with a total site area and a gross floor area of approximately 165,553 m² and 13,118 m², respectively;
- (iv) 13 residential units in Huludao, Liaoning Province used as staff quarters with a total gross floor area of approximately 1,239 m²;
- (v) land above gas pipelines located in Langfang, Hebei Province with a total area of approximately 15,961 m²; and
- (vi) a parcel of land located in Langfang, Hebei Province with a total area of 10,869 m².

FINANCIAL INFORMATION

In addition, as at 31 January 2002, the Group owns interests in two processing stations under construction located in Langfang, Hebei Province and Huangdao (Qingdao City), Shandong Province in the PRC, with a total site area of 40,072 m² and a total gross floor area of approximately 1,678 m² on completion of construction.

As at 31 January 2002, the Group leased the following properties:

- (i) sales and commercial offices in Langfang, Hebei Province with a total gross floor area of approximately 338 m²;
- (ii) sales and commercial offices in Liaocheng, Shandong Province with a total gross floor area of approximately 400 m²;
- (iii) sales and commercial offices in Miyun, Beijing Municipality with a total gross floor area of approximately 445 m²;
- (iv) residential units in Miyun, Beijing Municipality with a total gross floor area of approximately 388 m²;
- (v) sales and commercial offices in Changping, Beijing Municipality with a total gross floor area of approximately 821 m²;
- (vi) sales and commercial offices in Pinggu, Beijing Municipality with a total gross floor area of approximately 491 m²;
- (vii) sales and commercial offices in Qingdao, Shandong Province with a total gross floor area of approximately 3,118 m²;
- (viii) sales and commercial offices in Huludao, Liaoning Province with a total gross floor area of approximately 218 m²;
- (ix) sales and commercial office in Taixing, Jiangsu Province with gross floor area of approximately 181 m²;
- (x) a commercial office in Yancheng, Jiangsu Province with gross floor area of approximately 150 m²;
- (xi) a commercial office in Yangzhou, Jiangsu Province with gross floor area of approximately 76 m²;
- (xii) a commercial office in Laiyang, Shandong Province with gross floor area of approximately 300 m²;
- (xiii) a commercial office in Zouping, Shandong Province with gross floor area of approximately 80 m²;
- (xiv) a commercial office in Bengbu, Anhui Province with gross floor area of approximately 455 m²; and
- (xv) a commercial office in Yantai, Shandong Province with gross floor area of approximately 130 m².

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The property interests attributable to the Group have been valued at approximately RMB105.2 million as at 31 January 2002 by Chesterton Petty Limited, an independent property valuer. The texts of the letter with a summary of valuation and a valuation certificate of these property interests prepared by Chesterton Petty Limited are set out in the “Property valuation report” in Appendix II to this document.

DIVIDENDS

No dividends have been paid or declared by the Company since the date of its incorporation. However, during the Track Record Period, Langfang Xinao declared a dividend of RMB44 million to its then shareholders of which approximately RMB30.5 million was attributable to the Group. The payment of dividends by Langfang Xinao was funded by its internal resources.

Given the nature of the Group and the early stage of its development, the Directors do not expect to pay dividends for the foreseeable future. The Directors anticipate that all earnings in the foreseeable future will be retained to finance the continuing development of the Group’s business. However, future dividends, if any, will be declared or paid at the discretion of the Board and will depend upon, among other things, the Group’s operations, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as the Board may deem relevant. Dividends may only be distributed by the Company after it has made allowance for recovery of losses (if any) and there is no assurance that similar dividend payouts (in terms of amount and rate) will be distributed in the future.

DISTRIBUTABLE RESERVES

As at 31 December 2001, the Company’s reserves available for distribution to the Shareholders amounted to RMB249,783,000.

The amount which the Group’s subsidiaries in the PRC can legally distribute by way of a dividend is determined by reference to the profits as reflected in their PRC statutory financial statements which are prepared in accordance with accounting principles and financial regulations applicable to PRC joint ventures. These profits differ from those that are reflected in the accountants’ report set out in Appendix I to this document, which are prepared in accordance with accounting principles generally accepted in Hong Kong.

FINANCIAL INFORMATION

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 31 December 2001 as shown in the accountants' report, the text of which is set out in Appendix I to this document, adjusted as follows:

	<i>RMB'000</i>	<i>HK\$'000</i>
Audited combined net assets of the Group as at 31 December 2001	452,661	427,039
<i>Less:</i>		
Goodwill	(7,787)	(7,346)
Negative goodwill	1,852	1,747
Audited combined net tangible assets of the Group as at 31 December 2001	446,726	421,440
<i>Add:</i>		
Surplus arising on revaluation of the Group's property interests as at 31 January 2002 (<i>Note 1</i>)	7,051	6,652
Effect on deferred tax arising from revaluation (<i>Note 2</i>)	(2,115)	(1,995)
Net proceeds from the issue of new Shares in March 2002	345,560	326,000
Adjusted net tangible assets	797,222	752,097
Adjusted net tangible asset value per Share (<i>Note 3</i>)	RMB1.08	HK\$1.02

Notes:

- (1) As the land use right certificates of certain pieces of land currently used by the Group and the building ownership certificate for those building structures on these pieces of land have not been obtained, no commercial value has been assigned to these pieces of land and building structures by Chesterton Petty Limited, an independent property valuer of the Company. For the purpose of this pro forma statement of net tangible assets, these pieces of land and buildings structures are stated at their net book value at 31 December 2001 of approximately RMB12,972,000 as in the opinion of the Directors, no impairment to the value of these pieces of land and buildings structures to the Group has occurred. Accordingly, these pieces of land and buildings structures are not included in the calculation of the above surplus. The surplus arising on the revaluation of the Group's interests in properties will be incorporated into the Group's financial statements for the financial year ending 31 December 2002.
- (2) The effect on deferred tax arising from revaluation is calculated based on the relevant tax rates applicable to those subsidiaries established in the PRC.
- (3) The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis of 737,000,000 Shares in issue.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 31 December 2001 (being the date at which the latest audited combined financial statements of the Group were made up), there has been no material adverse change in the financial or trading position of the Group.

FUTURE PLANS AND PROSPECTS

The Directors anticipate strong growth in the demand for piped gas in the PRC for the foreseeable future. In addition, the PRC Government's commitment and determination to increase natural gas usage will create many opportunities. Hence, the Group will remain focused on the development of its core business of distributing piped gas. The Directors believe that the Group is well positioned to (i) capture this opportunity as the Group can leverage on its experience, established market position and solid track record, and (ii) develop into a leading piped gas distributor in the PRC. Accordingly, the Directors have formulated the following objectives for the Group:

- (i) To further develop existing Operational Locations. The Group will continue to expand the coverage area and increase its customer base within each of its Operational Locations. During the two months ended 28 February 2002, the Group made connection to a total of 2,891 residential households and three commercial and industrial sites. The Group will only develop an area within the existing Operational Locations as and when it is commercially viable to do so. The Group will market primarily to property developers, government departments and organisations, and state-owned enterprises as these entities will enter into master supply contracts for the connection of gas to a large number of residential units at a time. Because commercial and industrial customers are large volume gas users, the Group will also place significant efforts in marketing to them. The Group will continue to maintain regular dialogues and contacts with natural gas suppliers and the regulatory authorities which regulate the gas industry in order to monitor the development of long distance pipelines and evaluate relevant new policies. These dialogues will facilitate the Group's future strategic planning.
- (ii) To further expand to new Operational Locations. The Directors believe that there is further opportunity for business expansion in the PRC as evidenced by the Group's rapid and successful expansion since 1999. The Group will continue to explore and identify new Operational Locations for investment by the Group giving due consideration to the highest rates of return (the Group would require a premium over its weighted average cost of capital). The Group will seek to target new Operational Locations with access to either gas sources or long distance pipelines or new Operational Locations neighbouring its existing Operational Locations. In addition, the Group will also take into consideration factors such as the affluence of a new Operational Location and whether or not local governments will implement favourable policies for piped gas supply. As at the Latest Practicable Date, the Group has obtained relevant approvals to operate piped gas businesses in 17 locations in the PRC with a population coverage of over 3.9 million people compared to 12 locations in the PRC as at 31 December 2001.

In respect of locations with access to gas sources or long distance pipelines, the Group will seek to expand into Shanghai Municipality since it is the destination of the West to East Pipelines and one of the most economically viable regions in the PRC. Furthermore, as a majority of the districts within Shanghai Municipality are not currently equipped with piped gas supply, the Directors believe that there is significant market potential for the Group's business. The Group has set up a business development division in Shanghai Municipality at the end of 2001 to coordinate the market development activities for the eastern part of the PRC in areas where the West to East Pipelines cross (such as Shanghai Municipality, Jiangsu Province, Zhejiang Province Anhui Province and Henan Province).

FUTURE PLANS AND PROSPECTS

In particular, the Group is currently in the final stage of negotiation with the local government of Huaian City, Jiangsu Province. The Huaian City People's Government has approved the operation of piped gas distribution in the Huaian City by the Company and has, on 5 March 2002, granted the Company the priority entry right to develop and operate piped gas supply in the Huaian City whereby no other gas distribution company will be permitted to engage in piped gas distribution during the term of the joint venture. The Company plans to establish a Sino-foreign joint venture ("Huaian Xinao") with a PRC entity owned by 淮安市計劃委員會 (Huaian City Planning Commission*) to undertake the project. It is currently anticipated that, upon the establishment of Huaian Xinao, the Group will have no less than 70% interest in Huaian Xinao and that Huaian Xinao will be engaged in the provision of piped gas supply in Huaian City, Jiangsu Province, the PRC which has a population of approximately 697,000 (comprising a total of approximately 232,000 residential households) at the end of 2000.

In respect of locations neighbouring its existing Operational Locations, the Group will continue to expand its operations in Beijing Municipality, Hebei Province, Liaoning Province, Shandong Province, Jiangsu Province and Anhui Province. The Group currently maintains a competitive advantage in these areas because it is familiar with local operational conditions and has already established good working relationships with the local and provincial governments. The Group will also seek opportunities in Henan Province, along the West to East Pipelines.

When expanding into new Operational Locations, the Group will remain cognizant of its capabilities and resources so that its expansion is manageable and sufficient funding is available to meet the capital intensive nature of the investments.

- (iii) To carry out research and development with a view to improving the existing piped gas technology. The Group will continue its research and development efforts in piped gas technology in order to make the supply and usage of gas more convenient and safe, to improve efficiencies, to reduce costs and to provide better service to customers.

The Group intends to develop its in-house capability of designing main pipelines which is currently being carried out by 中國市政工程華北設計研究院 (China Urban Engineering Huabei Design and Research Institute*); after the certificate of competency in pipeline design is obtained, the Group intends to have the in-house team design some of the main pipelines, to strengthen the technical capabilities of the internal technical staff and to reduce costs.

- (iv) To obtain certification for technological quality control and improve operational efficiencies and customer relationships by the implementation of new information systems. Langfang Xinao has already received ISO9001 certification. The Group plans to set up two new information systems, which are:
 - (a) Map Information System – a database that stores all the technical details of the pipelines such as the detailed design information, geological data, completion date and the contractors responsible for constructing different segments of

FUTURE PLANS AND PROSPECTS

pipelines. The hardware and software will be purchased externally. The Map Information System will enhance operational efficiency as it provides information to enable proper actions to be taken in the event any pipeline problems are identified and to maintain an optimal maintenance schedule.

- (b) Supervisory Control and Data Acquisition system (“SCADA”) – As mentioned in the paragraph headed “The Group’s business – Safety and quality control” in this document, SCADA is a computerised system whereby a number of small detectors are installed at key points along the main pipelines to collect information such as temperature, pressure and volume of gas. This information is then sent back to the control centre electronically in order to improve efficiency and to reduce cost. The hardware and software will be purchased from third parties. SCADA will enhance safety and efficiency as it can quickly detect any pipeline irregularities. SCADA is operational in Langfang Xinao. The Group plans to install the SCADA system in Liaocheng, Huludao and Bengbu in 2002.

- (c) In order to improve customer relationships, the Group plans to set up call centres in its Operational Locations – The call centres is the centerpiece of the Group’s customer relationship management initiative. The call centres will operate 24 hours a day and serve as a platform for communication with the customers. The call centres will continue to carry out the functions of the existing 24-hour customer hotline. In addition, the call centres will have a database system which keeps track of all the relevant data of each customer. The Group will analyse such data to devise new marketing campaigns or optimal maintenance schedules for the customers. The call centres will also conduct regular telephone interviews with customers to determine their level of satisfaction with the services provided by the Group. The Group plans to assess the operations and performance of the call centre in Langfang so that it can be enhanced before being installed in other Operational Locations.

The following is the text of a report, prepared for the purpose of incorporation in this document, from the auditors and reporting accountants of Xinao, Deloitte Touche Tohmatsu.

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Deloitte Touche Tohmatsu

23 April 2002

The Directors

Xinao Gas Holdings Limited
N M Rothschild & Sons (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information regarding Xinao Gas Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2001 for inclusion in the introduction document of the Company dated 23 April 2002 (the “Document”).

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the then Companies Law of the Cayman Islands on 20 July 2000. Through a group reorganisation, the Company has since 28 March 2001 become the holding company of the other companies comprising the Group which is principally engaged in the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of gas in the People’s Republic of China (the “PRC”). Its shares have been listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 10 May 2001. The Company has proposed to withdraw its listing on GEM so as to arrange its shares to be listed on the Main Board of the Stock Exchange.

As at the date of this report, the particulars of the Company’s subsidiaries, all of which are indirectly held by the Company except for Xinao Gas Investment Group Limited, which is directly held by the Company, are as follows:

Name of company	Place and date of original 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”) (note a)	The PRC 10 September 1999	Registered capital US\$1,195,600	95%	Investment in gas pipeline infrastructure and provision of piped gas
北京新奧京昌燃氣有限公司 (“Beijing Xinao Jingchang Gas Company Limited”) (note a)	The PRC 16 November 2000	Registered capital RMB9,900,000	80%	Investment in gas pipeline infrastructure and provision of piped gas

Name of company	Place and date of original 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
北京新奧京谷燃氣有限公司 ("Beijing Xinao Jinggu Gas Company Limited") (note a)	The PRC 11 August 2000	Registered capital RMB9,900,000	70%	Investment in gas pipeline infrastructure and provision of piped gas
蚌埠新奧燃氣有限公司 ("Bengbu Xinao Gas Company Limited")	The PRC 28 December 2001	Registered capital RMB110,000,000	70%	Investment in gas pipeline infrastructure and provision of piped gas
葫蘆島新奧燃氣有限公司 ("Huludao Xinao Gas Company Limited") (note a)	The PRC 24 December 1999	Registered capital US\$1,207,700	90%	Investment in gas pipeline infrastructure and provision of piped gas
萊陽新奧燃氣有限公司 ("Laiyang Xinao Gas Company Limited")	The PRC 3 April 2002	Registered capital US\$5,000,000	95%	Investment in gas pipeline infrastructure and provision of piped gas
廊坊新奧燃氣有限公司 ("Langfang Xinao Gas Company Limited") (note b)	The PRC 28 March 1993	Registered capital US\$9,333,900	100%	Investment in gas pipeline infrastructure and provision of piped gas
廊坊新奧燃氣設備有限公司 ("Langfang Xinao Gas Equipment Company Limited")	The PRC 24 June 2001	Registered capital US\$360,000	100%	Manufacture of stored value card gas metre
聊城新奧燃氣有限公司 ("Liaocheng Xinao Gas Company Limited") (note a)	The PRC 11 June 1999	Registered capital RMB16,000,000	90%	Investment in gas pipeline infrastructure and provision of piped gas
青島新奧燃氣有限公司 ("Qingdao Xinao Gas Company Limited") (note a)	The PRC 30 October 2000	Registered capital RMB20,000,000	90%	Investment in gas pipeline infrastructure and provision of piped gas
青島新奧新城燃氣有限公司 ("Qingdao Xinao Xincheng Gas Company Limited")	The PRC 13 June 2001	Registered capital US\$1,610,000	90%	Investment in gas pipeline infrastructure and provision of piped gas

Name of company	Place and date of original incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
泰興新奧燃氣有限公司 ("Taixing Xinao Gas Company Limited")	The PRC 4 February 2002	Registered capital US\$1,200,000	90%	Investment in gas pipeline infrastructure and provision of piped gas
新奧(中國)燃氣發展有限公司 ("Xinao (China) Gas Development Company Limited")	The PRC 26 June 2001	Registered capital US\$6,000,000	100%	Sourcing of compressed natural gas
鹽城新奧燃氣有限公司 ("Yancheng Xinao Gas Company Limited")	The PRC 3 April 2002	Registered capital RMB50,000,000	80%	Investment in gas pipeline infrastructure and provision of piped gas
揚州新奧燃氣有限公司 ("Yangzhou Xinao Gas Company Limited")	The PRC 18 December 2001	Registered capital US\$1,300,000	100%	Investment in gas pipeline infrastructure and provision of piped gas
煙台新奧燃氣有限公司 ("Yantai Xinao Gas Company Limited")	The PRC 16 July 2001	Registered capital US\$2,100,000	100%	Investment in gas pipeline infrastructure and provision of piped gas
諸城新奧燃氣有限公司 ("Zhucheng Xinao Gas Company Limited")	The PRC 30 May 2001	Registered capital US\$3,000,000	80%	Investment in gas pipeline infrastructure and provision of piped gas
鄒平新奧燃氣有限公司 ("Zouping Xinao Gas Company Limited")	The PRC 21 January 2002	Registered capital US\$1,200,000	100%	Investment in gas pipeline infrastructure and provision of piped gas
Xinao Anhui Investment Limited	British Virgin Islands 16 November 2001	Share capital US\$1	100%	Investment holding
Xinao Changping Investment Limited	British Virgin Islands 19 December 2000	Share capital US\$1	100%	Investment holding
Xinao Chengyang Investment Limited	British Virgin Islands 15 August 2000	Share capital US\$1	100%	Investment holding
Xinao Gas Investment Group Limited	British Virgin Islands 4 January 2000	Share capital US\$1,000	100%	Investment holding

Name of company	Place and date of original 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
Xinao Huangdao Investment Limited	British Virgin Islands 19 December 2000	Share capital US\$1	100%	Investment holding
Xinao Huludao Investment Limited	British Virgin Islands 25 May 2000	Share capital US\$1	100%	Investment holding
Xinao Hunan Investment Limited	British Virgin Islands 16 November 2001	Share capital US\$1	100%	Investment holding
Xinao Jiangsu Investment Limited	British Virgin Islands 16 November 2001	Share capital US\$1	100%	Investment holding
Xinao Jingzhou Investment Limited	British Virgin Islands 15 August 2000	Share capital US\$1	100%	Investment holding
Xinao Langfang Investment Limited	British Virgin Islands 21 February 2000	Share capital US\$1,000	100%	Investment holding
Xinao Liaocheng Investment Limited	British Virgin Islands 26 April 2000	Share capital US\$1	100%	Investment holding
Xinao Miyun Investment Limited	British Virgin Islands 26 April 2000	Share capital US\$1	100%	Investment holding
Xinao Pinggu Investment Limited	British Virgin Islands 19 December 2000	Share capital US\$1	100%	Investment holding
Xinao Shandong Investment Limited	British Virgin Islands 16 November 2001	Share capital US\$1	100%	Investment holding
Xinao Shanghai Investment Limited	British Virgin Islands 16 November 2001	Share capital US\$1	100%	Investment holding
Xinao Southeast China Investment Limited	British Virgin Islands 17 August 2001	Share capital US\$1	100%	Investment holding
Xinao Yantai Investment Limited	British Virgin Islands 22 March 2001	Share capital US\$1	100%	Investment holding
Xinao Zhejiang Investment Limited	British Virgin Islands 16 November 2001	Share capital US\$1	100%	Investment holding
Xinao Zhucheng Investment Limited	British Virgin Islands 10 August 2000	Share capital US\$1	100%	Investment holding

Notes:

(a) The following companies were converted from PRC joint ventures to Sino-foreign equity joint ventures:

Name of company	Date of conversion	Terms of joint venture
Beijing Xinao Gas Company Limited	8 August 2000	30 years
Beijing Xinao Jingchang Gas Company Limited	16 August 2001	30 years
Beijing Xinao Jinggu Gas Company Limited	18 June 2001	30 years
Huludao Xinao Gas Company Limited	7 August 2000	30 years
Liaocheng Xinao Gas Company Limited	8 August 2000	30 years
Qingdao Xinao Gas Company Limited	12 June 2001	30 years

(b) Langfang Xinao Gas Company Limited was converted from a Sino-foreign equity joint venture into a wholly foreign owned enterprise on 21 December 2001.

For the companies registered and operating in the PRC, statutory financial statements were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. The statutory auditors of these companies for each of the three years ended 31 December 2001 (the "Relevant Periods"), or since their respective dates of establishment where this is a shorter period, are as follows:

Name of company	Financial period	Auditors
Beijing Xinao Gas Company Limited	For the period from 10 September 1999 (date of establishment) to 31 December 2000 and for the year ended 31 December 2001	北京達州會計師事務所有限公司
Beijing Xinao Jingchang Gas Company Limited	For the period from 16 November 2000 (date of establishment) to 31 December 2001	北京達州會計師事務所有限責任公司
Beijing Xinao Jinggu Gas Company Limited	For the period from 11 August 2000 (date of establishment) to 31 December 2001	北京達州會計師事務所有限責任公司
Huludao Xinao Gas Company Limited	For the period from 24 December 1999 (date of establishment) to 31 December 2000 For the year ended 31 December 2001	葫蘆島渤海會計師事務所 葫蘆島東方會計師事務所有限責任公司

Name of company	Financial period	Auditors
Langfang Xinao Gas Company Limited	For the years ended 31 December 1999, 2000 and 2001	廊坊益華會計師事務所有限公司
Langfang Xinao Gas Equipment Company Limited	For the period from 24 June 2001 (date of establishment) to 31 December 2001	廊坊益華會計師事務所有限公司
Liaocheng Xinao Gas Company Limited	For the period from 11 June 1999 (date of establishment) to 31 December 2000 and for the year ended 31 December 2001	聊城正坤有限責任會計師事務所
Qingdao Xinao Gas Company Limited	For the period from 30 October 2000 (date of establishment) to 31 December 2001	青島瑛成有限責任會計師事務所
Qingdao Xinao Xincheng Gas Company Limited	For the period from 13 June 2001 (date of establishment) to 31 December 2001	青島瑛成有限責任會計師事務所
Xinao (China) Gas Development Company Limited	For the period from 26 June 2001 (date of establishment) to 31 December 2001	廊坊益華會計師事務所有限公司
Yantai Xinao Gas Company Limited	For the period from 16 July 2001 (date of establishment) to 31 December 2001	山東北海會計師事務所有限公司
Zhucheng Xinao Gas Company Limited	For the period from 30 May 2001 (date of establishment) to 31 December 2001	諸城千禧有限責任會計師事務所

For all companies incorporated in the British Virgin Islands, they were not required to have their financial statements audited by independent auditors.

For the purpose of this report, we have undertaken our own independent audits of the management accounts or financial statements of these companies for the Relevant Periods, or since their respective dates of incorporation/establishment or acquisition where this is a shorter period, which are prepared under accounting principles generally accepted in Hong Kong, in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants, and have carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Society of Accountants.

The financial information of the Group for the Relevant Periods set out in this report have been prepared from the audited financial statements or management accounts (the "Underlying Financial Statements") of the companies comprising the Group, on the basis set out in note 1 of Section A below.

The Underlying Financial Statements are the responsibility of the directors of those companies who approve their issue. The directors of the Company are responsible for the contents of the Document in which this report is included. It is our responsibilities to compile the financial information set out in this report from the Underlying Financial Statements, to form an opinion on the financial information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section A below, the financial information give, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 1999, 2000, 2001 and of the combined results and cash flows of the Group for each of the three years ended 31 December 2001.

A. FINANCIAL INFORMATION

COMBINED INCOME STATEMENTS

	<i>Notes</i>	Year ended 31 December		
		1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
Turnover	3	52,923	122,270	240,560
Cost of sales		<u>(23,492)</u>	<u>(58,362)</u>	<u>(97,429)</u>
Gross profit		29,431	63,908	143,131
Other revenue	4	793	945	7,946
Tax refund	5	2,656	5,180	5,388
Selling expenses		(273)	(2,041)	(4,446)
Administrative expenses		(3,690)	(9,153)	(40,780)
Other operating expenses		<u>(45)</u>	<u>(357)</u>	<u>(1,323)</u>
Profit from operations	6	28,872	58,482	109,916
Finance costs	8	<u>(3,300)</u>	<u>(8,112)</u>	<u>(10,318)</u>
Profit before taxation		25,572	50,370	99,598
Taxation	9	<u>(3,836)</u>	<u>(6,976)</u>	<u>(11,081)</u>
Profit before minority interests		21,736	43,394	88,517
Minority interests		<u>(6,653)</u>	<u>(6,018)</u>	<u>(9,250)</u>
Profit for the year		<u>15,083</u>	<u>37,376</u>	<u>79,267</u>
Dividends	10	<u>–</u>	<u>30,529</u>	<u>–</u>
Earnings per share	11	<u>3.6 cents</u>	<u>8.9 cents</u>	<u>14.3 cents</u>

COMBINED BALANCE SHEETS

	<i>Notes</i>	At 31 December		
		1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
Non-current assets				
Property, plant and equipment	12	96,920	260,999	409,889
Goodwill	13	–	–	7,787
Negative goodwill	14	–	–	(1,852)
		<u>96,920</u>	<u>260,999</u>	<u>415,824</u>
Current assets				
Inventories	15	2,872	12,903	31,994
Trade and other receivables	16	1,215	39,580	78,122
Amounts due from customers for contract work	17	–	4,143	11,778
Amounts due from related companies	18	155,921	74,548	3,115
Amount due from ultimate holding company	19	–	3,492	–
Bank balances and cash		1,776	39,366	182,472
		<u>161,784</u>	<u>174,032</u>	<u>307,481</u>
Current liabilities				
Trade and other payables	20	20,967	61,472	93,313
Amounts due to customers for contract work	17	–	5,505	16,364
Amounts due to related companies	21	55,427	90,482	13,660
Dividend payable to minority shareholder of a subsidiary		–	1,625	–
Amount due to ultimate holding company	22	30,188	81,374	–
Bank loans – due within one year	23	34,755	87,392	74,933
Tax payable		6,330	6,657	2,925
		<u>147,667</u>	<u>334,507</u>	<u>201,195</u>
Net current assets (liabilities)		<u>14,117</u>	<u>(160,475)</u>	<u>106,286</u>
Total assets less current liabilities		<u>111,037</u>	<u>100,524</u>	<u>522,110</u>
Non-current liabilities				
Bank loans – due after one year	23	15,000	20,915	48,215
Deferred taxation	24	–	–	3,730
		<u>15,000</u>	<u>20,915</u>	<u>51,945</u>
Minority interests		<u>38,644</u>	<u>9,779</u>	<u>17,504</u>
		<u>57,393</u>	<u>69,830</u>	<u>452,661</u>
Capital and reserves				
Share capital	25	–	–	66,462
Reserves	27	57,393	69,830	386,199
		<u>57,393</u>	<u>69,830</u>	<u>452,661</u>

COMBINED STATEMENTS OF RECOGNISED GAINS AND LOSSES

	Year ended 31 December		
	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net surplus arising on valuation of land and buildings not recognised in the combined income statement	–	–	8,725
Profit for the year	<u>15,083</u>	<u>37,376</u>	<u>79,267</u>
Total recognised gains	15,083	37,376	87,992
Negative goodwill arising on acquisition of subsidiaries	<u>–</u>	<u>5,590</u>	<u>–</u>
	<u><u>15,083</u></u>	<u><u>42,966</u></u>	<u><u>87,992</u></u>

COMBINED CASH FLOW STATEMENTS

	<i>Notes</i>	Year ended 31 December		
		1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
Net cash (outflow) inflow from operating activities	28	(6,705)	84,165	82,245
Returns on investments and servicing of finance				
Interest received		28	202	2,875
Bank interest paid		(3,358)	(8,386)	(10,318)
Dividend paid		–	(30,529)	–
Dividends paid to minority shareholders		–	(13,471)	(2,975)
Net cash outflow from returns on investments and servicing of finance		(3,330)	(52,184)	(10,418)
Taxation				
PRC enterprise income tax paid		–	(7,433)	(14,813)
Tax refunded		–	–	10,568
Net cash outflow from taxation		–	(7,433)	(4,245)
Investing activities				
Purchase of property, plant and equipment		(10,260)	(24,206)	(111,154)
Acquisition of subsidiaries	29	–	(27,869)	(31,420)
Increase in interest in subsidiaries		–	(19,821)	(11,390)
Proceeds from disposal of property, plant and equipment		–	–	2,907
Net cash outflow from investing activities		(10,260)	(71,896)	(151,057)
Net cash outflow before financing		(20,295)	(47,348)	(83,475)

	<i>Notes</i>	Year ended 31 December		
		1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
Financing	30			
New loans raised		20,363	68,507	86,977
Repayment of bank loans		–	(34,755)	(75,194)
Advance from ultimate holding company		–	51,186	–
Proceeds from shares issued		–	–	252,333
Shares issue expenses		–	–	(38,868)
Contribution from minority shareholders		–	–	1,333
Net cash inflow from financing		<u>20,363</u>	<u>84,938</u>	<u>226,581</u>
Increase in cash and cash equivalents		68	37,590	143,106
Cash and cash equivalents at beginning of the year		<u>1,708</u>	<u>1,776</u>	<u>39,366</u>
Cash and cash equivalents at end of the year		<u><u>1,776</u></u>	<u><u>39,366</u></u>	<u><u>182,472</u></u>
Analysis of the balances of cash and cash equivalents				
Bank balances and cash		<u><u>1,776</u></u>	<u><u>39,366</u></u>	<u><u>182,472</u></u>

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

On 28 March 2001, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation (the "Group Reorganisation"). The combined income statements and combined cash flow statements of the companies now comprising the Group have been prepared as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment or acquisition, where this is a shorter period. The combined balance sheets of the Group as at 31 December 1999, 2000 and 2001 have been prepared to present the assets and liabilities of the companies now comprising the Group as at the respective dates, as if the current group structure had been in existence as at those dates.

Langfang Xinao Gas Company Limited is a Sino-foreign equity joint venture established in the PRC on 28 March 1993. Prior to the Group Reorganisation, it was owned as to approximately 19.63 per cent. by 廊坊市天然氣有限公司 ("Langfang City Natural Gas Company Limited"), approximately 30.37 per cent. by Newstar Australia Pty. Ltd. and 50 per cent. by 新奧集團股份有限公司 ("Xinao Group Company Limited"), all of which are companies controlled by Mr. Wang Yusuo ("Mr. Wang") or Ms. Zhao Baoju ("Ms. Zhao"). Since Mr. Wang indirectly owned an approximate 93.2 per cent. and an approximate 50.7 per cent. equity interests in Langfang City Natural Gas Company Limited and Xinao Group Company Limited respectively and Ms. Zhao owned the entire equity interest in Newstar Australia Pty. Ltd., Mr. Wang and Ms. Zhao jointly owned an approximate 74 per cent. effective equity interest in Langfang Xinao Gas Company Limited. Upon completion of the Group Reorganisation, Langfang Xinao Gas Company Limited became a 95 per cent. owned subsidiary of the Company, of which an approximate 69 per cent. effective equity interest was contributed by Mr. Wang and Ms. Zhao and the balance of an approximate 26 per cent. equity interest was acquired by the Group. On 21 December 2001, the Group acquired the remaining 5 per cent. equity interest in Langfang Xinao Gas Company Limited and it became a wholly owned subsidiary of the Company.

On 30 July 2000, the Group acquired an 80 per cent. equity interest in Beijing Xinao Gas Company Limited from Xinao Group Company Limited. On 3 August 2000, the Group acquired a 90 per cent. equity interest in Huludao Xinao Gas Company Limited from Xinao Group Company Limited. On 7 August 2000, the Group acquired a 90 per cent. equity interest in Liaocheng Xinao Company Limited from Xinao Group Company Limited.

On 23 May 2001, the Group acquired a 90 per cent. equity interest in Qingdao Xinao Gas Company Limited. On 18 June 2001, the Group acquired a 70 per cent. equity interest in Beijing Xinao Jinggu Gas Company Limited. On 16 August 2001, the Group acquired an 80 per cent. equity interest in Beijing Xinao Jingchang Gas Company Limited.

The summary of the combined results of the Group for the Relevant Periods includes the results of the companies comprising the Group for the periods under review as if the Group's equity interest in Langfang Xinao Gas Company Limited contributed by Mr. Wang and Ms. Zhao had been in existence since 1 January 1999 and throughout the Relevant Periods. Although the transfer of the 69 per cent. interest in Langfang Xinao Gas Company Limited indirectly owned by Mr. Wang and Ms. Zhao involved cash consideration, the consideration was funded by an advance from a company owned by Mr. Wang and Ms. Zhao and subsequently the advance was capitalised for shares of the Company. Accordingly, the transfer is in substance a share for share exchange. For the remaining 31 per cent. equity interest in Langfang Xinao Gas Company Limited and the equity interests in all other companies acquired by the Group during the Relevant Periods, these acquisitions have been accounted for using the acquisition method of accounting and their results are included from the effective dates of acquisition.

All significant intra-group transactions and balances have been eliminated on combination.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of combination

The combined financial statements incorporate the financial statements of the companies comprising the Group made up to 31 December each year under the basis as set out in note 1.

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

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

Goodwill

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

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

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

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

Revenue recognition

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Construction in progress

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

Investments in subsidiaries

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

Borrowing costs

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

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

Inventories

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

Construction contracts

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

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

Research and development costs

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

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

Taxation

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

Foreign currencies

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

Retirement benefit scheme contribution

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

Operating leases

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

Impairment

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

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

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

3. TURNOVER

Turnover comprises the following:

	Year ended 31 December		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Gas connection fees	38,508	101,282	184,796
Sales of gas	14,342	20,517	50,594
Sales of gas appliances	73	471	5,170
	<u>52,923</u>	<u>122,270</u>	<u>240,560</u>

4. OTHER REVENUE

Other revenue comprises the following:

	Year ended 31 December		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Interest income	28	202	2,875
Income from rented premises under operating leases	–	–	1,805
Management fee income	–	–	264
Release of negative goodwill	–	–	96
Sundry income	765	743	2,906
	<u>793</u>	<u>945</u>	<u>7,946</u>

5. TAX REFUND

	Year ended 31 December		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Refund of sales tax (<i>note a</i>)	2,656	–	–
Refund of income tax:			
– Langfang Xinao Gas Company Limited (<i>note b</i>)	–	5,180	4,000
– Xinao Langfang Investment Limited (<i>note c</i>)	–	–	1,388
	<u>2,656</u>	<u>5,180</u>	<u>5,388</u>

Notes:

- (a) The amount for the year ended 31 December 1999 represented a refund of sales tax. On 1 January 1994, the PRC Government abolished the Commercial and Industrial Consolidated Tax (“CICT”) and introduced a new system of indirect taxes including value-added tax, business tax and consumption tax. Pursuant to relevant tax regulations, foreign enterprises established before 31 December 1993 may, upon approval by tax authorities, be entitled to a refund of the excess sales tax paid under the new tax legislation over the amount calculated under CICT rules for a period of five years from 1 January 1994 to 31 December 1998 (the “Eligible Periods”). Under the new tax legislation, Langfang Xinao Gas Company Limited, a subsidiary of the Company, was subject to higher net sales tax payable when compared with sales tax calculated under CICT rules for the Eligible Periods. The tax refunds obtained by Langfang Xinao Gas Company Limited of the excess sales tax paid over the CICT that would otherwise be payable under the relevant tax rules were recorded in the year when the approval by tax authorities was obtained.
- (b) During the year ended 31 December 2000 and 2001, Langfang Xinao Gas Company Limited, a subsidiary of the Company, applied for a refund of part of the income tax paid as an incentive for investment in Langfang. The application was approved by 廊坊經濟技術開發區財政局 (“Finance Department of Langfang Economic and Technical Development Zone”), and was recorded in the year when the relevant approval was obtained.
- (c) During the year ended 31 December 2001, Xinao Langfang Investment Limited, a subsidiary of the Company, applied for a refund of part of the income tax paid as an incentive for investment in Langfang. The application was approved by 廊坊經濟技術開發區國家稅務局 (“Tax Bureau of Langfang Economic and Technical Development Zone”), and was recorded in the year when the relevant approval was obtained.

6. PROFIT FROM OPERATIONS

	Year ended 31 December		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Profit from operations has been arrived at after charging:			
Amortisation of goodwill	–	–	410
Auditors' remuneration	20	15	947
Depreciation and amortisation of property, plant and equipment	3,977	5,863	12,887
Loss on disposal of property, plant and equipment	34	2,035	143
Minimum lease payments under operating leases in respect of land and buildings	93	481	921
Provision for bad and doubtful debts	270	277	2,180
Research and development expenses	–	762	752
Staff costs	1,951	5,257	22,611
Less: Amount capitalised under construction in progress	(490)	(451)	–
	<u>1,461</u>	<u>4,806</u>	<u>22,611</u>

7. REMUNERATION OF DIRECTORS AND EMPLOYEES

	Year ended 31 December		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Directors			
Fees	–	–	191
Salaries and other benefits	–	–	3,357
Performance related incentive payments	–	–	235
Retirement benefits scheme contributions	–	–	15
	<u>–</u>	<u>–</u>	<u>3,798</u>

The amounts disclosed above include directors' fees of RMB127,000 payable to independent non-executive directors for the year ended 31 December 2001.

Emoluments of the directors were within the following bands:	No. of directors	No. of directors	No. of directors
Nil – HK\$1,000,000	9	9	8
HK\$1,000,001 – HK\$1,500,000	<u>–</u>	<u>–</u>	<u>1</u>

No remuneration was paid or payable to any directors of the Company during the year ended 31 December 1999 and 2000.

Employees

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

	Year ended 31 December		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
Salaries and other benefits	86	141	3,303
Performance related incentive payments	–	–	107
Retirement benefits scheme contributions	6	6	16
	<u>92</u>	<u>147</u>	<u>3,426</u>
	No. of individuals	No. of individuals	No. of individuals
Emoluments of the five highest paid individuals were within the following bands:			
Nil – HK\$1,000,000	5	5	4
HK\$1,000,001 – HK\$1,500,000	<u>–</u>	<u>–</u>	<u>1</u>
Number of directors	–	–	3
Number of employees	<u>5</u>	<u>5</u>	<u>2</u>
	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

8. FINANCE COSTS

	Year ended 31 December		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
Interest on bank borrowings wholly repayable within five years	3,358	8,386	10,318
Less: Amount capitalised under construction in progress	<u>(58)</u>	<u>(274)</u>	<u>–</u>
	<u>3,300</u>	<u>8,112</u>	<u>10,318</u>

The annual capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation are 9.40 per cent. and 6.34 per cent. for the years ended 31 December 1999, 2000 respectively. No interest was capitalised during the year ended 31 December 2001.

9. TAXATION

The charge represents enterprise income tax in the PRC for the Relevant Periods.

Pursuant to the relevant laws and regulations in the PRC, all the Group'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 per cent. relief from PRC enterprise income tax for the following three years. The reduced tax rate for the relief period is ranging from 7.5 per cent. to 16.5 per cent.. The charge of PRC enterprise income tax for the Relevant Periods has been provided for after taking these tax incentives into account.

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

10. DIVIDENDS

No dividends have been paid or declared by the Company since the date of its incorporation. However, during the year ended 31 December 2000, Langfang Xinao Gas Company Limited declared a dividend of RMB44,000,000 to its then shareholders, of which approximately RMB30,529,000 was paid in respect of the approximate 69 per cent. equity interest contributed by Mr. Wang and Ms. Zhao.

11. EARNINGS PER SHARE

The calculations of basic earnings per share for the year ended 31 December 1999, 2000 and 2001 are based on the combined profit for the year of approximately RMB15,083,000, RMB37,376,000 and RMB79,267,000 and the weighted average of 420,000,000, 420,000,000 and 553,446,575 shares in issue during the respective year.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 1999	12,774	66,287	78	1,995	597	4,198	85,929
Additions	7,551	9,125	21	2,202	315	2,256	21,470
Disposals	(25)	—	(12)	—	—	—	(37)
At 31 December 1999	20,300	75,412	87	4,197	912	6,454	107,362
DEPRECIATION AND AMORTISATION							
At 1 January 1999	890	4,741	18	656	163	—	6,468
Provided for the year	1,036	2,325	4	511	101	—	3,977
Eliminated on disposals	(3)	—	—	—	—	—	(3)
At 31 December 1999	1,923	7,066	22	1,167	264	—	10,442
NET BOOK VALUES							
At 31 December 1999	18,377	68,346	65	3,030	648	6,454	96,920
COST							
At 1 January 2000	20,300	75,412	87	4,197	912	6,454	107,362
Acquired on acquisition of subsidiaries	10,466	36,098	11,768	2,351	544	7,305	68,532
Additions	57,443	30,402	1,836	3,734	787	13,749	107,951
Reclassification	—	11,633	2,211	(10)	—	(13,834)	—
Disposals	(2,223)	—	—	—	—	—	(2,223)
At 31 December 2000	85,986	153,545	15,902	10,272	2,243	13,674	281,622
DEPRECIATION AND AMORTISATION							
At 1 January 2000	1,923	7,066	22	1,167	264	—	10,442
Acquired on acquisition of subsidiaries	478	3,793	33	174	28	—	4,506
Provided for the year	1,797	2,494	446	940	186	—	5,863
Eliminated on disposals	(188)	—	—	—	—	—	(188)
At 31 December 2000	4,010	13,353	501	2,281	478	—	20,623
NET BOOK VALUES							
At 31 December 2000	81,976	140,192	15,401	7,991	1,765	13,674	260,999

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

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

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

	At 31 December		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
Interest capitalised included in construction in progress	58	274	-

13. GOODWILL

	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
GROSS AMOUNT			
At beginning of the year	–	–	–
Arising on acquisition during the year	–	–	8,197
	<u>–</u>	<u>–</u>	<u>8,197</u>
At end of the year	–	–	8,197
AMORTISATION			
At beginning of the year	–	–	–
Charge for the year	–	–	(410)
	<u>–</u>	<u>–</u>	<u>(410)</u>
At end of the year	–	–	(410)
CARRYING VALUE			
At end of the year	<u>–</u>	<u>–</u>	<u>7,787</u>

The amortisation period adopted for goodwill is 20 years.

14. NEGATIVE GOODWILL

	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
GROSS AMOUNT			
At beginning of the year	–	–	–
Arising on acquisition during the year	–	–	1,948
	<u>–</u>	<u>–</u>	<u>1,948</u>
At end of the year	–	–	1,948
RELEASED TO INCOME			
At beginning of the year	–	–	–
Released in the year	–	–	(96)
	<u>–</u>	<u>–</u>	<u>(96)</u>
At end of the year	–	–	(96)
CARRYING VALUE			
At end of the year	<u>–</u>	<u>–</u>	<u>1,852</u>

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

15. INVENTORIES

	At 31 December		
	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
Construction materials	2,855	10,988	27,722
Gas appliances	–	1,534	2,056
Piped gas	17	169	440
Spare parts and consumables	–	212	1,776
	<u>2,872</u>	<u>12,903</u>	<u>31,994</u>

All inventories were carried at cost as at 31 December 1999, 2000 and 2001.

16. TRADE AND OTHER RECEIVABLES

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

The following is an aging analysis of trade receivable:

	At 31 December		
	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 – 3 months	191	7,719	35,707
4 – 6 months	–	7,692	18,412
7 – 9 months	–	2,934	2,354
10 – 12 months	–	603	1,520
More than 1 year	–	–	3,993
	<hr/>	<hr/>	<hr/>
Trade receivable	191	18,948	61,986
Amount due from an officer	–	–	4,456
Prepayments, deposits and other receivables	1,024	20,632	11,680
	<hr/>	<hr/>	<hr/>
	<u>1,215</u>	<u>39,580</u>	<u>78,122</u>

The amount due from an officer represents the amount advanced to Ms. Lam Hiu Ha, the Head of Hong Kong Office, which is unsecured, interest free and repayable on demand. The maximum amount outstanding for the year ended 31 December 2001 amounted to RMB4,456,000.

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

	At 31 December		
	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract costs incurred plus recognised profits less anticipated losses	–	91,019	225,968
Less: Progress billings	–	(92,381)	(230,554)
	<hr/>	<hr/>	<hr/>
	<u>–</u>	<u>(1,362)</u>	<u>(4,586)</u>
Analysed for reporting purposes as:			
Amounts due from customers for contract work	–	4,143	11,778
Amounts due to customers for contract work	–	(5,505)	(16,364)
	<hr/>	<hr/>	<hr/>
	<u>–</u>	<u>(1,362)</u>	<u>(4,586)</u>

18. AMOUNTS DUE FROM RELATED COMPANIES

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

Name of company	At 31 December		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
北京市密雲化工公司 ("Beijing City Miyun Chemicals Company")	-	1,445	1,445
新奧集團石家莊化工機械股份有限公司 ("Xinao Group Shijiazhuang Petrochemical and Machinery Company Limited")	-	322	800
諸城市燃氣熱力總公司 ("Zhucheng City Gas and Heating Corporation")	-	-	501
廊坊新城房地產開發有限公司 ("Langfang Xincheng Property Development Company Limited")	-	-	369
廊坊市天然氣有限公司 ("Langfang City Natural Gas Company Limited")	1,487	29,876	-
廊坊開發區市政建設工程有限公司 ("Langfang Development Zone Urban Construction Engineering Company Limited")	-	20,400	-
Newstar Australia Pty. Ltd.	-	17,253	-
廊坊新奧物業管理有限公司 ("Langfang Xinao Property Management Company Limited")	9,743	2,745	-
廊坊新奧建築安裝工程有限公司 ("Langfang Xinao Construction and Decoration Engineering Company Limited")	-	2,000	-
Beijing Xinao Jingchang Gas Company Limited*	-	202	-
廊坊新奧酒店管理有限公司 ("Langfang Xinao Hotel Management Company Limited")	-	136	-
新奧集團太陽能有限公司 ("Xinao Group Solar Energy Company Limited")	2,180	100	-
Beijing Xinao Jinggu Gas Company Limited*	-	58	-
Qingdao Xinao Gas Company Limited*	-	10	-
新奧集團股份有限公司 ("Xinao Group Company Limited")	134,278	1	-
廊坊新奧化工有限公司 ("Langfang Xinao Chemicals Company Limited")	3,299	-	-
Beijing Xinao Gas Company Limited*	2,848	-	-
Huludao Xinao Gas Company Limited*	1,820	-	-
廊坊開發區新奧洗衣有限責任公司 ("Langfang Development Zone Xinao Laundry Limited Liability Company")	266	-	-
	<u>155,921</u>	<u>74,548</u>	<u>3,115</u>

Name of company	Maximum amount outstanding during the year		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
Beijing City Miyun Chemicals Company	–	1,445	1,445
Xinao Group Shijiazhuang Petrochemical and Machinery Company Limited	–	322	2,000
Zhucheng City Gas and Heating Corporation	–	–	501
Langfang Xincheng Property Development Company Limited	–	–	369
Langfang City Natural Gas Company Limited	1,487	29,876	29,876
Langfang Development Zone Urban Construction Engineering Company Limited	–	20,400	20,400
Newstar Australia Pty. Ltd.	–	17,253	17,253
Langfang Xinao Property Management Company Limited	9,743	9,743	2,745
Langfang Xinao Construction and Decoration Engineering Company Limited	–	2,000	2,000
Beijing Xinao Jingchang Gas Company Limited*	–	202	202
Langfang Xinao Hotel Management Company Limited	–	136	136
Xinao Group Solar Energy Company Limited	2,180	3,009	100
Beijing Xinao Jinggu Gas Company Limited*	–	95	58
Qingdao Xinao Gas Company Limited*	–	10	10
Xinao Group Company Limited	134,278	134,278	326
Langfang Xinao Chemicals Company Limited	3,299	6,686	–
Beijing Xinao Gas Company Limited*	2,848	2,848	–
Huludao Xinao Gas Company Limited*	1,820	2,005	–
Langfang Development Zone Xinao Laundry Limited Liability Company	266	266	–

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

The amounts were unsecured and interest free and repayable on demand.

* *These companies were acquired by the Company during the Relevant Periods (see note 29).*

19. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount was unsecured and interest free.

20. TRADE AND OTHER PAYABLES

The following is an aging analysis of trade payable:

	At 31 December		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
0 – 3 months	8,215	17,082	36,299
4 – 6 months	729	7,163	8,120
7 – 9 months	2,168	4,833	5,306
10 – 12 months	100	9,475	3,043
More than 1 year	3,522	1,317	9,155
Trade payable	14,734	39,870	61,923
Advances received from customers	3,226	4,682	3,673
Accrued charges and other payables	3,007	16,920	27,717
	<u>20,967</u>	<u>61,472</u>	<u>93,313</u>

21. AMOUNTS DUE TO RELATED COMPANIES

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

Name of company	At 31 December		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
Langfang City Natural Gas Company Limited 北京市昌平市政經濟發展總公司 ("Beijing City Changping Urban Economic Development Corporation")	28,052	1,023	10,000 [#]
Xinao Group Shijiazhuang Petrochemical and Machinery Company Limited	–	–	3,077
Xinao Group Company Limited	340	73,176	–
Langfang Xincheng Property Development Company Limited	8,885	10,346	–
Langfang Development Zone Urban Construction Engineering Company Limited	7,965	4,000	–
Beijing Xinao Jinggu Gas Company Limited*	–	1,312	–
Xinao Group Solar Energy Company Limited	–	503	–
Langfang Xinao Construction and Decoration Engineering Company Limited 廊坊生物化工有限公司	200 9,985	122 –	– –
	<u>55,427</u>	<u>90,482</u>	<u>13,660</u>

The amounts are unsecured, interest free and have no fixed repayment terms. All the above related companies are controlled by Mr. Wang except for Beijing City Changping Urban Economic Development Corporation which is the minority shareholder of Changping Xinao Gas Company Limited.

* This company was acquired by the Company during the year ended 31 December 2001 (see note 29).

The balance has been fully settled subsequent to 31 December 2001.

22. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount was unsecured and interest free. The amount was fully capitalised during the year ended 31 December 2001 (see note 25(d)).

23. BANK LOANS

	At 31 December		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
Secured bank loans	49,755	51,507	48,737
Unsecured bank loans	–	56,800	74,411
	<u>49,755</u>	<u>108,307</u>	<u>123,148</u>
The bank loans are repayable:			
Within one year	34,755	87,392	74,933
Between one to two years	15,000	20,210	37,798
Between two to five years	–	705	10,417
	49,755	108,307	123,148
Less: Amount due within one year shown under current liabilities	<u>(34,755)</u>	<u>(87,392)</u>	<u>(74,933)</u>
Amount due after one year	<u>15,000</u>	<u>20,915</u>	<u>48,215</u>

24. DEFERRED TAXATION

At 31 December 2001, the Group had deferred taxation amounting to RMB3,730,000 (1999 and 2000: Nil) arising on valuation of properties.

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

25. SHARE CAPITAL

	1999	2000	2001	1999	2000	2001
		Number of shares		HK\$'000	HK\$'000	HK\$'000
Shares of HK\$0.1 each						
Authorised:						
At beginning of the year	-	-	1,000,000	-	-	100
Incorporation of the Company (note a)	-	1,000,000	-	-	100	-
Increase on 28 March 2001 (note c)	-	-	2,999,000,000	-	-	299,900
At end of the year	-	1,000,000	3,000,000,000	-	100	300,000
Issued and fully paid:						
At beginning of the year	-	-	10	-	-	-
Incorporation of the Company (note a)	-	2	-	-	-	-
Allotted on 21 August 2000 (note b)	-	8	-	-	-	-
Share exchange upon reorganisation (note c)	-	-	193,999,990	-	-	19,400
Capitalisation issue (note d)	-	-	226,000,000	-	-	22,600
Issue of shares on placing (note e)	-	-	180,000,000	-	-	18,000
Issue of shares on over-allotment (note f)	-	-	27,000,000	-	-	2,700
At end of the year	-	10	627,000,000	-	-	62,700
				RMB'000	RMB'000	RMB'000
Presented in financial statements as:						
At beginning of the year				-	-	-
Incorporation of the Company (note a)				-	-	-
Allocated on 21 August 2000 (note b)				-	-	-
Share exchange upon reorganisation (note c)				-	-	20,564
Capitalisation issue (note d)				-	-	23,956
Issue of shares on placing (note e)				-	-	19,080
Issue of shares on over-allotment (note f)				-	-	2,862
At end of the year				-	-	66,462

Notes:

- (a) On 20 July 2000, the Company was incorporated with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of nominal value of HK\$0.10 each. On the same date, two shares were allotted and issued to the initial subscribers and each of such shares was then transferred to Mr. Wang and Ms. Zhao, respectively on 21 August 2000.
- (b) On 21 August 2000, the Company allotted eight shares at par as to seven shares to Mr. Wang and as to one share to Ms. Zhao, all of which were issued for cash at par.
- (c) On 28 March 2001, the Company increased its authorised share capital from HK\$100,000 to HK\$300,000,000, by the creation of an additional 2,999,000,000 shares and allotted and issued in aggregate 193,999,990 shares to Easywin Enterprises Limited ("Easywin"), credited as fully paid at HK\$19,399,999 in total for the acquisition by the Company of the entire issued share capital of Xinao Gas Investment Group Limited from Easywin.
- (d) On 9 May 2001, 226,000,000 shares were issued and credited as fully paid to Easywin by capitalising RMB81,374,000 (equivalent to approximately HK\$76,768,000) due from the Group to Easywin.
- (e) On 9 May 2001, 180,000,000 shares of HK\$0.10 each were issued at HK\$1.15 per share through an initial public offering by way of placing.
- (f) On 22 May 2001, 27,000,000 shares of HK\$0.10 each were issued at HK\$1.15 per share pursuant to the over-allotment option under the initial public offering aforesaid.

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

26. SHARE OPTION SCHEME

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

On 31 January 2002, the Company has granted an aggregate of 18,000,000 options on the Company's shares in favour of certain directors and employees, of which 8,400,000 options were granted to certain directors of the Company.

27. RESERVES

	1999 RMB'000	2000 RMB'000	2001 RMB'000
SHARE PREMIUM			
At beginning of the year	–	–	–
Arising on capitalisation issue (<i>note 25(d)</i>)	–	–	57,418
Arising on shares issued upon initial public offering	–	–	230,391
Shares issue expenses	–	–	(38,868)
	<u>–</u>	<u>–</u>	<u>–</u>
At end of the year	–	–	248,941
	<u>–</u>	<u>–</u>	<u>–</u>
GOODWILL RESERVE			
At beginning of the year	–	–	5,590
Negative goodwill arising on acquisition of businesses and subsidiaries	–	5,590	–
	<u>–</u>	<u>5,590</u>	<u>–</u>
At end of the year	–	5,590	5,590
	<u>–</u>	<u>5,590</u>	<u>5,590</u>
RETAINED PROFITS			
At beginning of the year	20,579	35,662	42,509
Profit for the year	15,083	37,376	79,267
Dividend	–	(30,529)	–
	<u>20,579</u>	<u>37,376</u>	<u>–</u>
At end of the year	35,662	42,509	121,776
	<u>35,662</u>	<u>42,509</u>	<u>121,776</u>
SPECIAL RESERVE			
At beginning of the year	21,731	21,731	21,731
Share exchange upon reorganisation (<i>note 25(c)</i>)	–	–	(20,564)
	<u>21,731</u>	<u>21,731</u>	<u>1,167</u>
At end of the year	21,731	21,731	1,167
	<u>21,731</u>	<u>21,731</u>	<u>1,167</u>
REVALUATION RESERVE			
At beginning of the year	–	–	–
Surplus arising on valuation of land and buildings	–	–	12,536
Tax effect on revaluation surplus	–	–	(3,730)
Share of valuation surplus by minority shareholders	–	–	(81)
	<u>–</u>	<u>–</u>	<u>8,725</u>
At end of the year	–	–	8,725
	<u>–</u>	<u>–</u>	<u>8,725</u>
TOTAL RESERVES	<u>57,393</u>	<u>69,830</u>	<u>386,199</u>

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 at the time of the Group Reorganisation.

28. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	Year ended 31 December		
	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	25,572	50,370	99,598
Loss on disposal of property, plant and equipment	34	2,035	143
Depreciation and amortisation of property, plant and equipment	3,977	5,863	12,887
Amortisation of goodwill	–	–	410
Release of negative goodwill	–	–	(96)
Tax refund	–	(5,180)	(5,388)
Interest income	(28)	(202)	(2,875)
Interest expenses	3,300	8,112	10,318
Increase in inventories	(2,055)	(1,612)	(12,669)
Decrease (increase) in trade and other receivables	1,873	(26,484)	(20,395)
Increase in amounts due from customers for contract work	–	(4,143)	(7,635)
(Increase) decrease in amounts due from related companies	(29,070)	5,405	71,433
(Increase) decrease in amount due from ultimate holding company	–	(3,492)	3,492
(Decrease) increase in trade and other payables	(1,945)	16,001	(1,015)
Increase in amounts due to customers for contract work	–	5,505	10,859
(Decrease) increase in amounts due to related companies	(8,363)	31,987	(76,822)
Net cash (outflow) inflow from operating activities	<u>(6,705)</u>	<u>84,165</u>	<u>82,245</u>

29. ACQUISITION OF SUBSIDIARIES

During each of the two years ended 31 December 2001, the Group acquired the following companies, particulars of which are as follows:

For the year ended 31 December 2000

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

For the year ended 31 December 2001

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

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

	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
Net assets acquired			
Property, plant and equipment	–	64,026	41,137
Inventories	–	8,419	6,422
Trade and other receivables	–	6,701	23,327
Amounts due from related companies	–	7,503	–
Bank balances and cash	–	3,496	1,728
Tax recoverable	–	105	–
Trade and other payables	–	(24,504)	(32,856)
Amounts due to related companies	–	(3,068)	–
Tax payable	–	(889)	–
Bank loans	–	(24,800)	(3,058)
Minority interests	–	(4,560)	(6,387)
	–	32,429	30,313
(Negative goodwill) goodwill	–	(1,064)	2,835
Total consideration	–	31,365	33,148
Satisfied by			
Cash consideration	–	31,365	33,148
Outflow of cash and cash equivalents arising on acquisition			
Cash consideration	–	31,365	33,148
Bank balances and cash acquired	–	(3,496)	(1,728)
Net outflow of cash and cash equivalents in respect of purchase of subsidiaries	–	27,869	31,420

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

	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
Results			
Contribution to the Group's turnover	–	24,980	36,888
Contribution to the Group's profit for the year	–	6,636	16,265
Cash flows			
Contribution to the Group's net operating cash flows	–	12,712	38,703
Payment in respect of the net returns on investments and servicing of finance	–	(703)	(116)
Payment in respect of taxation	–	(902)	(59)
Utilisation of funds for investing activities	–	(9,268)	(34,926)
Fund raised (utilised) in respect of financing activities	–	521	(17)

30. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
SHARE CAPITAL AND PREMIUM			
At beginning of the year	–	–	–
Capitalisation issue	–	–	81,374
Share exchange upon reorganisation	–	–	20,564
Shares issued upon initial public offering	–	–	252,333
Shares issue expenses	–	–	(38,868)
	<u>–</u>	<u>–</u>	<u>–</u>
At end of the year	<u>–</u>	<u>–</u>	<u>315,403</u>
MINORITY INTERESTS			
At beginning of the year	31,991	38,644	9,779
Contribution from minority shareholders	–	–	1,333
On acquisition of subsidiaries	–	4,560	6,387
Share of profits and reserves by minority shareholders	6,653	6,018	9,331
Dividend paid	–	(13,471)	(1,350)
Dividend payable	–	(1,625)	–
Increase in interest in subsidiaries	–	(24,347)	(7,976)
	<u>–</u>	<u>–</u>	<u>–</u>
At end of the year	<u>38,644</u>	<u>9,779</u>	<u>17,504</u>
BANK LOANS			
At beginning of the year	29,392	49,755	108,307
New loans raised	20,363	68,507	86,977
On acquisition of subsidiaries	–	24,800	3,058
Repayments	–	(34,755)	(75,194)
	<u>–</u>	<u>–</u>	<u>–</u>
At end of the year	<u>49,755</u>	<u>108,307</u>	<u>123,148</u>
AMOUNT DUE TO ULTIMATE HOLDING COMPANY			
At beginning of the year	30,188	30,188	81,374
Advance during the year	–	51,186	–
Capitalisation issue	–	–	(81,374)
	<u>–</u>	<u>–</u>	<u>–</u>
At end of the year	<u>30,188</u>	<u>81,374</u>	<u>–</u>

31. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 1999, the Company acquired property, plant and equipment amounting to RMB11,152,000 in settlement of amounts due from related companies.

During the year ended 31 December 2000, the Group acquired property, plant and equipment amounting to RMB83,471,000 in settlement of amounts due from related companies.

During the year ended 31 December 2001, the Company acquired the entire issued share capital of Xiniao Gas Investment Group Limited from Easywin by way of share exchange (see note 25(c)) and also capitalised the amount due to Easywin (see note 25(d)).

32. CAPITAL COMMITMENTS

	At 31 December		
	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the financial statements	–	3,311	2,375
	<u>–</u>	<u>3,311</u>	<u>2,375</u>

33. 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:

	At 31 December		
	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
Within one year	–	549	997
In the second to fifth years inclusive	–	583	1,915
Over five years	–	–	188
	<u>–</u>	<u>1,132</u>	<u>3,100</u>

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

The Group as lessor

At 31 December 2001, certain of the Group's properties with a carrying amount of RMB21,115,000 (1999 and 2000: nil) are held for rental purposes. The depreciation charge of these properties for the year ended 31 December 2001 amounted to RMB1,559,000 (1999 and 2000: nil). The properties are expected to generate rental yields of 8.5 per cent. 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:

	At 31 December		
	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
Within one year	–	–	1,805
In the second to fifth years inclusive	–	–	1,805
	<u>–</u>	<u>–</u>	<u>3,610</u>

34. PLEDGE OF ASSETS

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

	At 31 December		
	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>
Property, plant and equipment	–	130,235	48,737

35. RELATED PARTY TRANSACTIONS

Name of related party	Nature of transaction	Year ended 31 December		
		1999 RMB'000	2000 RMB'000	2001 RMB'000
Langfang Xincheng Property Development Company Limited	Provision of gas connection services by the Group (Note a and Note g)	3,440	11,360	7,785
	Acquisition of land and buildings by the Group (Note d)	–	7,600	–
Langfang Xinao Hotel Management Company Limited	Provision of gas connection services by the Group (Note a)	–	453	–
	Sales of gas by the Group (Note b and Note g)	–	125	885
Langfang Xinao Property Management Company Limited	Provision of gas connection services by the Group (Note a)	–	82	330
	Sales of gas by the Group (Note b and Note g)	4,909	3,927	6,690
	Provision for management services to the Group (Note c and Note g)	–	–	1,056
	Lease of premises by the Group (Note e and Note g)	–	–	330
Xinao Group Solar Energy Company Limited	Sales of gas by the Group (Note b and Note g)	52	65	46
Langfang City Natural Gas Company Limited	Acquisition of land and buildings by the Group (Note d)	11,152	540	–
	Acquisition of pipelines and related facilities (Note d)	–	27,431	–
Xinao Group Company Limited	Sales of gas by the Group (Note b and Note g)	475	525	362
	Acquisition of land and buildings by the Group (Note d)	–	47,900	–
	Lease of premises by the Group (Note e and Note g)	–	–	1,475
	Reimbursement of management fee (Note e and Note g)	–	–	264
	Lease of premises to the Group (Note e and Note g)	–	–	136
Xinao Group Shijiazhuang Petrochemical and Machinery Company Limited	Acquisition of compressed natural gas truck trailers, pressure regulating and gas equipment (Note f and Note g)	–	–	7,755

Notes:

- (a) The provision of gas connection services was charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (b) The sales of gas were charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (c) The provision of management services was determined in accordance to the contract entered into between the Group and the related company.

- (d) The consideration for the acquisition of property, plant and equipment from the related parties during the year ended 31 December 2000 was determined by reference to valuation made by an independent valuer. The consideration during the year ended 31 December 1999 was determined at amounts mutually agreed by parties involved.
- (e) Rental for lease of premises and reimbursement of management fee were determined in accordance to the contracts entered into between the Group and the related companies.
- (f) The consideration for acquisition of compressed natural gas truck trailers, pressure regulating and gas equipment was charged in accordance with prices by reference to the similar transactions with outsiders.
- (g) The directors confirmed that these transactions will be continued after listing of the Company's shares on the Main Board of the Stock Exchange.

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.

36. SEGMENT INFORMATION

(a) Business segments

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

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

	Year ended 31 December		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
Turnover			
Gas connection fees	38,508	101,282	184,796
Sales of gas	14,342	20,517	50,594
Sales of gas appliances	73	471	5,170
	<u>52,923</u>	<u>122,270</u>	<u>240,560</u>
Profit from operations			
Gas connection fees	26,076	64,171	128,076
Sales of gas	7,309	3,391	22,199
Sales of gas appliances	23	164	460
Unallocated other revenue	–	6,125	13,334
Unallocated expenses:			
– depreciation and amortisation (<i>Note</i>)	(3,977)	(3,818)	(7,604)
– corporate expenses	(559)	(11,551)	(46,549)
	<u>28,872</u>	<u>58,482</u>	<u>109,916</u>

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

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

	At 31 December		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
Assets:			
Segment assets			
– gas connection fees	–	26,645	71,452
– sales of gas	273	6,549	57,428
– sales of gas appliances	–	756	11,177
– unallocated segment assets	86,857	200,053	320,492
Unallocated corporate assets	171,574	201,028	262,756
	<u>258,704</u>	<u>435,031</u>	<u>723,305</u>
Liabilities:			
Segment liabilities			
– gas connection fees	7,010	16,563	50,600
– sales of gas	2,722	8,220	19,831
– sales of gas appliances	–	–	2,740
– unallocated segment liabilities	10,722	37,443	26,369
Unallocated corporate liabilities	142,213	293,196	153,600
	<u>162,667</u>	<u>355,422</u>	<u>253,140</u>

(b) Geographical segment

More than 90 per cent. of the Group's assets are located in the PRC, including Hong Kong, at 31 December 1999, 2000 and 2001.

All of the Group's businesses are derived from activities in the PRC, including Hong Kong, during the Relevant Periods.

37. RETIREMENT BENEFITS SCHEMES

According to the relevant laws and regulations in the PRC, the PRC subsidiaries are required to contribute a certain percentage of the payroll of their employees to the retirement benefits schemes to fund the retirement benefits of their employees. With effect from 1 December 2000, a subsidiary of the Company is required to join a Mandatory Provident Fund Scheme for all its employees in Hong Kong. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the respective schemes. During the Relevant periods, there were no forfeited contributions, which arose upon employees leaving the retirement benefits schemes, available to reduce the contribution payable in the future periods.

	Year ended 31 December		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
Retirement benefit contribution made during the year	<u>275</u>	<u>377</u>	<u>1,167</u>

38. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable to the Company's directors by the Company or any of its subsidiaries in respect of the Relevant Periods.

Under the arrangement presently in force, the aggregate amount of the directors' fees and emoluments for the year ending 31 December 2002, is estimated to be approximately RMB4,691,000.

39. ULTIMATE HOLDING COMPANY

Easywin Enterprises Limited, a company which is incorporated in the British Virgin Islands, is the ultimate holding company of the Company.

40. SUBSEQUENT EVENTS

Subsequent to 31 December 2001, the following significant events took place:

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

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

- (d) On 12 March 2002, the Company entered into a placing agreement with ABN AMRO Bank N.V. and N M Rothschild and Sons Limited (the "Placing Agent") pursuant to which the Placing Agent agreed to purchase or procure to purchase 110,000,000 existing shares at the price of HK\$3.05 per share from the ultimate holding company of the Company. On the same date, the Company entered into a subscription agreement with the ultimate holding company to subscribe for 110,000,000 new shares of HK\$0.1 each at the price of HK\$3.05 per share.

B. FINANCIAL INFORMATION OF THE COMPANY

The balance sheet of the Company as at 31 December 2001 is as follows:

	<i>Notes</i>	<i>RMB'000</i>
Non-current assets		
Interest in subsidiaries	<i>1</i>	315,868
Current assets		
Deposits and prepayments		4,994
Bank balances and cash		49,443
		54,437
Current liabilities		
Amounts due to subsidiaries		54,060
Net current assets		
		377
		<u>316,245</u>
Capital and reserves		
Share capital		66,462
Reserves	<i>2</i>	249,783
		<u>316,245</u>

The balance sheet at 31 December 1999 is not presented as the Company was incorporated after 31 December 1999.

The balance sheet at 31 December 2000 is not presented as the Company did not have significant net tangible assets. On the basis net out in Section A above, the net tangible assets of the Company at 31 December 2000 were approximately RMB69,830,000.

1. Interest in subsidiaries

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

2. Reserves

	<i>RMB'000</i>
SHARE PREMIUM	
At beginning of the year	–
Arising on capitalisation issue (<i>note 25(d)</i>)	57,418
Arising on shares issued upon initial public offering	230,391
Shares issue expenses	(38,868)
	<u>248,941</u>
RETAINED PROFITS	
At beginning of the year	–
Profit for the year	842
	<u>842</u>
	<u>249,783</u>
TOTAL RESERVES	

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 31 December 1999 and 2000, the Company had no reserves for distribution to its shareholder. At 31 December 2001, the Company's reserves available for distribution to shareholders amounted to RMB249,783,000.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2001.

Yours faithfully,
DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificate issued by Chesterton Petty Ltd., an independent property valuer, prepared for the purpose of incorporation in this document, in connection with its valuation of the property interests held by the Company and its subsidiaries as at 31 January 2002.



International Property Consultants

Chesterton Petty Ltd
16th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

23 April 2002

The Board of Directors
Xinao Gas Holdings Limited
Huaxiang Road
Langfang Economic and Technical Development Zone
Hebei Province
The People's Republic of China

Dear Sirs,

In accordance with your instructions to value the property interests held by Xinao Gas Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the Hong Kong Special Administration Region ("Hong Kong") and in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of such property interests as at 31 January 2002.

Our valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation assuming:

- (i) a willing seller;
- (ii) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (iii) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

- (iv) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion”.

Our valuation has been made on the assumption that the owner sells the property interests on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuation.

We have valued property interests Nos. 5, 6, 7 & 13 in Group I according to comparable sale evidence available in the market. For all the other property interests in Group I, due to the specific purpose for which most of the buildings and structures have been constructed, there are no readily identifiable market comparable. Thus these buildings and structures cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of their depreciated replacement cost. We would define “depreciated replacement cost” for these purposes to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings and structures, including fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparable sales.

Property interests in Group II which are held under construction, have been valued on the basis of the prevailing cost level and status of construction as at the date of valuation, and we have also assumed that all consents, approvals and licences from relevant government authorities for the development proposals will be granted without any onerous conditions or undue delay which might affect their values.

In valuing the property interests, we have also relied on the advice given by the Group and its legal advisers, Commerce & Finance Law Offices, on PRC laws, regarding the title to property interests and interests of the Group in the properties. For the purpose of our valuation, unless otherwise stated, we have also assumed that the Group has enforceable title to the property interests and has free and uninterrupted rights to use, occupy or assign property interests for the whole of the respective unexpired terms as granted. Unless otherwise stated, in the course of our valuation of property interests in Group I and II, we have assumed that the transferable land use rights in respect of property interests for respective specific terms subject to nominal annual land use fees have been granted.

Property interests in Group III and IV, which are leased by the Group have no commercial value due to the prohibition against assignment or sub-letting and their short term nature and the lack of substantial profit rent.

We have been provided with copies of extracts of title documents relating to the properties, such as land use right certificates and construction work planning permits. However, we have not inspected the original documents to verify the ownership or to verify any amendments, which may not appear on the copies handed to us. In the course of our valuation, we have relied to a considerable extent on the information given by the Group and its legal advisers on PRC laws, Commerce &

Finance Law Offices, and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, completion date of buildings, particulars of occupancy, joint venture contracts, floor and site areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us and are therefore only approximations. We have not been able to carry out detailed on-site measurements to verify the correctness of the site and the floor areas of the property interests and we have assumed that the site and the floor areas shown on the documents handed to us are correct. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided.

We have inspected the exterior of the properties valued and, where possible, the interior of the premises. However, we have not carried out investigations on site to determine the suitability of the ground conditions and services etc for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all properties are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

In preparing our valuation report, we have had regard to the requirements contained in the provisions of Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Renminbi.

Our summary of values and valuation certificate are attached.

Yours faithfully,
For and on behalf of
Chesterton Petty Limited
Charles C K Chan

MSc FRICS FHKIS MCIArb RPS(GP)

Executive Director

Note: Charles C K Chan, Chartered Estate Surveyor, M.Sc., F.R.I.C.S., F.H.K.I.S., M.C.I.Arb., R.P.S. (G.P.), has been a qualified valuer with Chesterton Petty Ltd. since June 1987 and has about 17 years' experience in valuation of properties in Hong Kong and has extensive experience in valuation of properties in the PRC.

SUMMARY OF VALUES

Property	Capital value in existing state as at 31 January 2002 <i>RMB</i>	Group's attributable interest %	Capital value in existing state as at 31 January 2002 attributable to the Group <i>RMB</i>
Group I – Property interests held by the Group in the PRC			
1. Langfang Development Zone Processing Station Huaxiang Road West Langfang Economic and Technical Development Zone Langfang City Hebei Province, the PRC	7,250,000	100%	7,250,000
2. Chengbei Processing Station Heping Road North Section West side Langfang City Hebei Province, the PRC	4,790,000	100%	4,790,000
3. Chengnan Processing Station Langzhou Road North Xinzhuang Road West Langfang City Hebei Province, the PRC	2,930,000	100%	2,930,000
4. Land and Building located at the junction of Huaxiang Road East and Hongrun Road North Langfang Economic and Technical Development Zone Langfang City Hebei Province, the PRC	51,970,000	100%	51,970,000
5. Land and Building located at 2 Jinguang Road Langfang City Hebei Province, the PRC	7,500,000	100%	7,500,000
6. Staff Quarters Building 19 Yinhe Main Street Langfang City Hebei Province, the PRC	3,010,000	100%	3,010,000
7. Staff Quarters Building 6 Yingchun Main Street Langfang City Hebei Province, the PRC	1,805,000	100%	1,805,000
8. Land occupied for laying gas pipelines from Wanzhuang to Langfang Langfang City Hebei Province, the PRC	460,000	100%	460,000
9. Land occupied for laying gas pipelines from Yongqing to Langfang Yongqing County Hebei Province, the PRC	1,080,000	100%	1,080,000
10. Land occupied for laying gas pipelines from Anci to Langfang Langfang City Hebei Province, the PRC	370,000	100%	370,000

APPENDIX II

PROPERTY VALUATION REPORT

Property	Capital value in existing state as at 31 January 2002 RMB	Group's attributable interest %	Capital value in existing state as at 31 January 2002 attributable to the Group RMB
11. A parcel of land located at the northern side of Wanzhuang Petroleum Factory Planning District Langfang City Hebei Province, the PRC	540,000	100%	540,000
12. Huludao Processing Station 2 Shanshui Road Longwan New District Huludao City Liaoning Province, the PRC	7,240,000	90%	6,516,000
13. 13 Residential Units Block 4, Shenhai Garden Huludao City Liaoning Province, the PRC	1,730,000	90%	1,557,000
14. Miyun Processing Station Jizhuang Village Mixi Road North Miyun County Beijing Municipality, the PRC	2,620,000	95%	2,489,000
15. Liaocheng Processing Station Huxi Road Liaocheng City Shandong Province, the PRC	4,290,000	90%	3,861,000
16. Changping Processing Station Zheng Ba Street Changping County Beijing Municipality, the PRC	No commercial value	80%	No commercial value
17. Pinggu Processing Station District 11 Xinggu Economic Development Area Pinggu County Beijing Municipality, the PRC	2,260,000	70%	1,582,000
18. Land and Buildings located at 26 Leyuan West District Pinggu County Beijing Municipality, the PRC	No commercial value	70%	No commercial value
19. Qingdao Processing Station West of Changbeishan Road and North of Jialingjiang Road Qingdao City Shandong Province, the PRC	335,000	90%	301,500
20. A parcel of land located at North of Jialingjiang Road West of Changbeishan Road Qingdao City Shandong Province, the PRC	No commercial value	90%	No commercial value

Property	Capital value in existing state as at 31 January 2002 <i>RMB</i>	Group's attributable interest %	Capital value in existing state as at 31 January 2002 attributable to the Group <i>RMB</i>
21. Chengyang Processing Station Gumiaotou District Village Chengyang Town Chengyang Qingdao Shandong Province, the PRC	No commercial value	90%	No commercial value
22. Zhucheng Processing Station North Section of Dongwaihuan Road Zhucheng City Shandong Province, the PRC	No commercial value	80%	No commercial value
23. A processing station located at South of Xihutun Chun Langfang City Hebei Province, the PRC	180,000	100%	180,000
Sub-total:			98,191,500

Group II – Property interests held by the Group under construction in the PRC

24. The Extended Portion of Langfang Development Zone Processing Station Yaohua Road Langfang Economic and Technical Development Zone Langfang City Hebei Province, the PRC	6,980,000	100%	6,980,000
25. A parcel of land located at Tuanjie Road Qingdao City Shandong Province, the PRC	No commercial value	90%	No commercial value
Sub-total:			6,980,000

Group III – Property interests leased by the Group in the PRC

26. Level 2 of a building located at Pipeline Bureau District Six Langfang City Hebei Province, the PRC			No commercial value
27. A unit on Level 1 located at 1 Yingchun Road Langfang City Hebei Province, the PRC			No commercial value
28. Two units on Level 1 West Wing Pipeline Bureau District Nine Langfang City Hebei Province, the PRC			No commercial value

Property	Capital value in existing state as at 31 January 2002 <i>RMB</i>	Group's attributable interest %	Capital value in existing state as at 31 January 2002 attributable to the Group <i>RMB</i>
29. A unit on Level 1 3-1-8 Binhe Estate Huludao City Liaoning Province, the PRC			No commercial value
30. Portion of Level 1 74 Dongchang West Road Liaocheng City Shandong Province, the PRC			No commercial value
31. Portion of Level 1, Building 11 Menshi Jia, South Main Street Miyun County Beijing Municipality, the PRC			No commercial value
32. Portion of Levels 1 & 2 Commercial Service Building Kangju south District Miyun County Beijing Municipality, the PRC			No commercial value
33. Rooms 201, 301, 401 of Block 4 and Rooms 201, 202, 302 of Block 5 Building No. 6 Kangju South District Miyun County Beijing Municipality, the PRC			No commercial value
34. Level 16 Hualin Building Qingdao City Shandong Province, the PRC			No commercial value
35. A unit at 8-1 Xiangjiang Road Developing District Qingdao City Shandong Province, the PRC			No commercial value
36. Portion of Level 1 Construction Bank Office Building Petroleum Mine District Wanzhuang Langfang City Hebei Province, the PRC			No commercial value
37. Portion of the Building at 129-133 Huangpujiang Road Qingdao Economic and Technology Development Zone Qingdao City Shandong Province, the PRC			No commercial value
38. No.1, Unit 3 Block 25 Nanli Estate Dongguan Changping District Beijing Municipality, the PRC			No commercial value

Property	Capital value in existing state as at 31 January 2002 <i>RMB</i>	Group's attributable interest %	Capital value in existing state as at 31 January 2002 attributable to the Group <i>RMB</i>
39. Room 501, Unit 1 Block No. 21 Xihuanli Estate Changping District Beijing Municipality, the PRC			No commercial value
40. No. 1-10 Block 9 Zhenbei Chenggen Changping District Beijing Municipality, the PRC			No commercial value
41. No. 1, Unit 1 Block No. 2 Zhenbei Chenggen Changping District Beijing Municipality, the PRC			No commercial value
42. A portion on Level 3 East Gate Shibei Shizhenwei Dormitory Building Beihuan Road North Changping District Beijing Municipality, the PRC			No commercial value
43. A portion on Level 4 2nd Gate Block 24 Zhenbeihuan Road Changping District Beijing Municipality, the PRC			No commercial value
44. No. 7 Unit 2 Block No. 3 Zhenbei Chengen Changping District Beijing Municipality, the PRC			No commercial value
45. No. 2, Unit 3 Block No. 25 Nanli Estate Dongguan Changping District Beijing Municipality, the PRC			No commercial value
46. A portion on Levels 1 to 2 No. 1-6 Jianshe West Street Pinggu Town Pinggu County Beijing Municipality, the PRC			No commercial value
47. No. 3, Unit 1 Block 30 Leyuan West Estate Pinggu Town Pinggu County Beijing Municipality, the PRC			No commercial value

Property	Capital value in existing state as at 31 January 2002 <i>RMB</i>	Group's attributable interest %	Capital value in existing state as at 31 January 2002 attributable to the Group <i>RMB</i>
48. No. 2, Unit 1 Block 33 Leyuan West Estate Pinggu Town Pinggu County Beijing Municipality, the PRC			No commercial value
49. No. 6, Unit 6 Block 46 Leyuan West Estate Pinggu Town Pinggu County Beijing Municipality, the PRC			No commercial value
50. No. 2, Unit 5 Block 14 Leyuan West Estate Pinggu Town Pinggu County Beijing Municipality, the PRC			No commercial value
51. Unit 302 Block 7 5th Estate Huacheng Road Chengyang District Qingdao City Shandong Province, the PRC			No commercial value
52. An unit on Level 2 Unit East 4 2nd Estate Zhongcheng Road Technology Development Centre Chengyang District Qingdao City Shandong Province, the PRC			No commercial value
53. Unit 301 Block 7 5th Estate Huacheng Road Chengyang District Qingdao City Shandong Province, the PRC			No commercial value
54. No. 10 Block 4 Zhongcheng Road Chengyang District Qingdao City Shandong Province, the PRC			No commercial value
55. No. 11 Block 4 Zhongcheng Road Chengyang District Qingdao City Shandong Province, the PRC			No commercial value

Property	Capital value in existing state as at 31 January 2002 <i>RMB</i>	Group's attributable interest %	Capital value in existing state as at 31 January 2002 attributable to the Group <i>RMB</i>
56. An unit on Level 1 Unit 2 Block 2 Design Insitute Mingyang Road Chengyang District Qingdao City Shandong Province, the PRC			No commercial value
57. Room 501 Unit 2 Block 7 5th Estate Huacheng Road Chengyang Road Chengyang District Qingdao City Shandong Province, the PRC			No commercial value
58. A portion of 66 Heping Road South Zhucheng Shandong Province, the PRC			No commercial value
59. Units 105, 106, 206 and 606 Longcheng Block 2 Unit 404 and 501 Longcheng Block 7 Dongpo Estate Zhucheng Qingdao City Shandong Province, the PRC			No commercial value
60. The 1st to 3rd shop unit Northeast section Jinxiang Building Guoqing West Road Taixing Town Taixing City Jiangsu Province The PRC			No commercial value
61. 12 units on Level 3 of an office building Tongyu Zhong Road Yancheng City Jiangsu Province The PRC			No commercial value
62. Room 206 Dormitory Building of Salt Bureau Nanhai Road Gaoyou Yangzhou City Jiangsu Province The PRC			No commercial value

Property	Capital value in existing state as at 31 January 2002 <i>RMB</i>	Group's attributable interest %	Capital value in existing state as at 31 January 2002 attributable to the Group <i>RMB</i>
63. A portion of an office building No. 259 Mashan Road Laiyang City Shandong Province The PRC			No commercial value
64. Portion on Level 4 Jianwei Office Building Zouping County Zouping City Shandong Province The PRC			No commercial value
65. Portion of an office building No. 120 Zhongrong Street Bengbu City Anhui Province The PRC			No commercial value
66. Units 301 and 303 Building No. 1 Hua Ming Building Yantai City Shandong Province The PRC			No commercial value
Sub-total:			No commercial value
Group IV – Property interest leased by the Group in Hong Kong			
67. Portion of Office Units 4201-4202 42th Floor, Far East Finance Centre 16 Harcourt Road Admiralty, Hong Kong			No commercial value
Sub-total:			No commercial value
Grand-total:			<u>105,171,500</u>

VALUATION CERTIFICATE

Group I – Property interests held by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
1. Langfang Development Zone Processing Station Huaxiang Road West Langfang Economic and Technical Development Zone Langfang City Hebei Province The PRC	<p>The property comprises a level site with a site area of approximately 24,840 sq.m. (267,378 sq.ft.), located at the junction of Huaxiang Road and Yaohua Road.</p> <p>Currently erected on the site is a processing station comprising six one to three storey buildings of brick/concrete construction with a total gross floor area of approximately 3,038.29 sq.m. (32,704 sq.ft.) completed in 1998.</p> <p>The land use rights of the property are held for a term commencing from 30 December 1999 and expiring on 26 September 2045 for industrial uses.</p>	<p>Portion of the property with gross floor area of approximately 1,186.45 sq.m. is provided to 新奧(中國)燃氣發展有限公司 for a term from 1 June 2001 to 31 July 2003 for office use at no consideration. Portion of the property with gross floor area of approximately 1,375.17 sq.m. is provided to 廊坊新奧燃氣設備有限公司 for a term from 29 May 2001 to 31 July 2003 for office use at no consideration. The remaining portion of the property is occupied by the Group for administration and manufacturing purposes.</p>	<p>RMB7,250,000</p> <p>(100% interest attributable to the Group: RMB7,250,000)</p>

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊產國用(1999)字第00052號 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau) on 30 December 1999, the land with a site area of 24,840 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred thereafter as “Party A”), for a term commencing from 30 December 1999 and expiring on 26 September 2045 for industrial use.
- (2) Pursuant to the Building Ownership Certificate 廊開字自第5034號 issued by 廊坊經濟技術開發區房地產管理局 (Langfang Economic and Technology Development Zone Real Estate Administration Bureau) in October 1998, title to the buildings with a total gross floor area of 3,038.29 sq.m. is vested in Party A.
- (3) Pursuant to Article of Association of wholly owned foreign enterprise dated 21 December 2001 entered into by Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., (referred thereafter as “Party B”), a wholly owned foreign enterprise is established. The major terms stipulated in the Article of Association, inter alia, are stated below:
 - (i) Name of wholly owned foreign enterprise : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$23,000,000
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$9,333,900
- (4) Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People’s Republic of China 外經貿冀廊字 (1993) 0022號 issued by the People’s Government of Hebei Province in 2002, Party A is solely incorporated by Party B.

- (5) Pursuant to the Business Licence (Registration No. 企獨冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2002, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.
- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by transfer. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer, lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
- (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. It is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to future transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid government authority's approval has been obtained.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Article of Association	Yes
State-owned Land Use Right Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
2. Chengbei Processing Station Heping Road North Section West side Langfang City Hebei Province The PRC	The property comprises a level site with an area of approximately 20,000.00 sq.m. (215,280 sq.ft.), constructed with two single-storey buildings of brick/concrete structure with a total gross floor area of approximately 658.16 sq.m. (7,084 sq.ft.) completed in 1999. The land use rights of the property are held for a term of 50 years commencing from 8 August 1999 and expiring on December 2048 for urban facilities use.	The property is occupied by the Group for administration and manufacturing purposes.	RMB4,790,000 (100% interest attributable to the Group: RMB4,790,000)

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊國用(1999)字第01310號 dated 8 August 1999 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau), the land with a site area of 20,000.00 sq.m. is vested in 廊坊新奧燃氣有限公司(Langfang Xinao Gas Company Limited, referred thereafter as "Party A") for a term commencing from 8 August 1999 and expiring on December 2048 for urban facilities use.
- (2) Pursuant to the Building Ownership Certificate 廊坊市房權證字第K3170 dated 23 August 1999 issued by 廊坊市房地產管理局 (Langfang City Real Estate Administration Bureau), the title to the buildings with a total gross floor area of 658.16 sq.m. is vested in Party A.
- (3) Pursuant to Article of Association of wholly owned foreign enterprise dated 21 December 2001 entered into by Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., (referred thereafter as "Party B"), a wholly owned foreign enterprise is established. The major terms stipulated in the Article of Association, inter alia, are stated below:
 - (i) Name of wholly owned foreign enterprise : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$23,000,000
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$9,333,900
- (4) Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People's Republic of China 外經貿冀廊字 (1993) 0022號 issued by the People's Government of Hebei Province in 2002, Party A is solely incorporated by Party B.
- (5) Pursuant to the Business Licence (Registration No. 企獨冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2002, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.

- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by transfer. Subject to the registration procedures being completed with the relevant government authority, these land use rights can be transferred, leased or mortgaged but the use of the land cannot be changed. There is no legal impediment for Party A in completing the registration procedure.
 - (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. Party A is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to the transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid registration procedure is completed.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Article of Association	Yes
State-owned Land Use Right Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
3. Chengnan Processing Station Langzhou Road North Xinzhuang Road West Langfang Hebei Province The PRC	<p>The property comprises two adjoining level plots of land with a total site area of approximately 13,067.40 sq.m. (140,657 sq.ft.), constructed with two single storey buildings of brick/concrete construction. The total gross floor area of the buildings is approximately 323.10 sq.m. (3,478 sq.ft.) completed in August 2000.</p> <p>The land use rights of the property are held for a term commencing from 20 August 1998 and expiring on 20 August 2043 for composite use.</p>	The property is occupied by the Group for administration and manufacturing uses.	RMB2,930,000 (100% interest attributable to the Group: RMB2,930,000)

Notes:

- (1) Pursuant to two State-owned Land Use 安國轉(1999)字第0181 and 0182號 both dated 16 August 1999 issued by 廊坊市安次區土地管理局 (Langfang City Anci District Land Administration Bureau), the land with a total site area of 13,067.40 sq.m. is vested in 廊坊新奧燃氣有限公司(Langfang Xinao Gas Company Limited, referred thereafter as "Party A") for a term commencing from 20 August 1998 and expiring on 20 August 2043 for composite use.
- (2) Pursuant to the Building Ownership Certificate 廊坊市房權證字第K3299 dated 2 August 2000 issued by 廊坊市房地產管理局 (Langfang City Real Estate Administration Bureau), titles to the said buildings with a total gross floor area of 323.10 sq.m. are vested in Party A.
- (3) Pursuant to Article of Association of wholly owned foreign enterprise dated 21 December 2001 entered into by Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., (referred thereafter as "Party B"), a wholly owned foreign enterprise is established. The major terms stipulated in the Article of Association, inter alia, are stated below:
 - (i) Name of wholly owned foreign enterprise : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$23,000,000
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$9,333,900
- (4) Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People's Republic of China 外經貿冀廊字 (1993) 0022號 issued by the People's Government of Hebei Province in 2002, Party A is solely incorporated by Party B.
- (5) Pursuant to the Business Licence (Registration No. 企獨冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2002, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.

- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by transfer. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the land but Party A shall complete the registration procedure with the relevant government authority for future transfer, lease or mortgage of the land. There is no legal impediment for Party A in completing such registration procedure.
 - (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. It is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to future transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid registration procedure is completed.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Article of Association	Yes
State-owned Land Use Right Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
4. Land and Building located at the junction of Huaxiang Road East and Hongrun Road North Langfang Economic and Technical Development Zone Langfang City Hebei Province The PRC	<p>The property comprises a level site with a site area of 19,481.33 sq.m. (209,697 sq.ft.) or thereabouts located at the junction of Huaxiang Road and Hongrun Road.</p> <p>Currently erected on the site is a composite building of reinforced concrete structure completed in August 1999. The total gross floor area of the building is approximately 10,605.17 sq.m. (114,154 sq.ft.).</p> <p>The land use rights of the property are held for a term commencing from 20 December 2000 and expiring on 30 March 2047 for composite use.</p>	<p>Level 1 of the property with a total gross floor area of approximately 3,299 sq.m. is leased under a tenancy agreement to 新奧集團股份有限公司 (Xinao Group Company Limited) for a term of 3 years commencing from 1 January 2001 and expiring on 31 December 2003 at an annual rent of RMB1,039,185 exclusive of management fee but inclusive of charges listed in Note 7(i).</p> <p>The remaining portion of the property is occupied by the Group for administration and recreational purposes.</p>	<p>RMB51,970,000</p> <p>(100% interest attributable to the Group: RMB51,970,000)</p>

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊開國用(2000)字第00027號 dated 20 December 2000 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau), the land with a total site area of 19,481.33 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred thereafter as "Party A") for a term commencing from 20 December 2000 to 30 March 2047 for composite use.
- (2) Pursuant to the Building Ownership Certificate 廊坊市房權證廊開字第G4109號 dated 25 December 2000 issued by 廊坊市房地產管理局 (Langfang City Real Estate Administration Bureau), title to the said building with a total gross floor area of approximately 10,605.17 sq.m. is vested in Party A.
- (3) Pursuant to Article of Association of wholly owned foreign enterprise dated 21 December 2001 entered into by Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., (referred thereafter as "Party B"), a wholly owned foreign enterprise is established. The major terms stipulated in the Article of Association, inter alia, are stated below:
 - (i) Name of wholly owned foreign enterprise : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$23,000,000
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$9,333,900
- (4) Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People's Republic of China 外經貿冀廊字 (1993) 0022號 issued by the People's Government of Hebei Province in 2002, Party A is solely incorporated by Party B.
- (5) Pursuant to the Business Licence (Registration No. 企獨冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2002, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.

(6) The property is subject to three mortgage charges; details of which are being listed as follows:

Contract No.	Mortgagor	Mortgagee	Mortgage Loan	Mortgage Term
1. 開農銀抵字(2001)第017號	Party A and 新奧集團股份有限公司	中國農業銀行 廊坊開發區支行	RMB9,000,000	Expiring on 2003-08-29
2. 開農銀借字(2001)第019號	Party A	中國農業銀行 廊坊開發區支行	RMB18,000,000	Expiring on 2003-09-17
3. 開農銀抵字(2001)第024號	Party A	中國農業銀行 廊坊開發區支行	RMB8,000,000	Expiring on 2002-11-21

(7) The Lease Agreement entered into between Party A (the “Landlord”) and 新奧集團股份有限公司 (Xinao Group Company Limited) (the “Tenant”) dated 1 January 2001, which contains, inter alia, the following information:

- (i) The charges included in the annual rent comprises apportioned building depreciation, building routine maintenance fees common area usage/maintenance charges and relevant charges in respect of hygiene, environment, gardening, air-conditioning, fire services, security, insurance, water, electricity and telecommunication;
- (ii) The rent will not be adjusted within the first year; and
- (iii) If adjustment is required after the first year rental period, the new rent shall be increased according to the inflation rate announced by the State provided that the new rent shall not exceed an increment rate of 8%.

(8) We have been provided with legal opinion on the title to the property issued by the Group’s legal advisers on PRC law, which contains, inter alia, the following information:

- (i) Party A has obtained the land use rights of the aforesaid land legally by grant. These land use rights have been mortgaged for a term from 6 September 1999 to 24 September 2001. During the mortgage period, Party A shall not transfer or further mortgage the land use rights of the aforesaid land unless with the consent of the aforesaid mortgagee. However the same can be leased after obtaining approval of the relevant government authority. After the mortgage period expires, subject to the approval of the relevant government authority this land use rights can be transferred, leased or mortgaged but the use of the land cannot be changed. According to the PRC law, Party A shall only be granted the State-owned land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the land but Party A shall obtain the approval of the relevant government authority for future transfer of lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
- (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. The buildings are subject to mortgage. The mortgage period is 2 year from 6 September 1999. During the mortgage period, Party A shall not transfer or further mortgage the building ownership right of such buildings unless with the consent of the aforesaid mortgagee. However, the same can be leased after obtaining approval of the relevant government authority. After the mortgage period expires, Party A is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to future transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid government authority’s approval has been obtained.
- (iii) Party A has the building ownership right of the buildings. The lease agreement is registered in relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto. The rights and obligations of both parties thereto are protected and governed by PRC laws.

(9) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Article of Association	Yes
State-owned Land Use Right Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes
Mortgage Contracts	Yes
Lease Agreement	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
5. Land & Building located at 2 Jinguang Road Langfang City Hebei Province The PRC	The property comprises a parcel of land with a total site area of approximately 2,481.90 sq.m. (26,715 sq.ft.) constructed with a 6-storey building of reinforced concrete structure with a total gross floor of approximately 4,368.63 sq.m. (47,024 sq.ft.) completed in 1999. The land use rights of the property are held for a term commencing from 22 December 2000 and expiring on 23 December 2047 for composite use.	The property is occupied by the Group for administration purposes.	RMB7,500,000 (100% interest attributable to the Group: RMB7,500,000)

Notes:

- (1) Pursuant to State-owned Land Use Right Certificate 廊國用(2000)字第01363號 dated 22 December 2000 issued by 廊坊市土地管理局(Langfang City Land Administration Bureau), the land with a total site area of 2,481.90 sq.m. is vested in 廊坊新奧燃氣有限公司(Langfang Xinao Gas Company Limited, referred thereafter as "Party A") for a term commencing from 22 December 2000 and expiring on 23 December 2047 for composite use.
- (2) Pursuant to the Building Ownership Certificate 廊坊市房權證字第K2902號 dated 20 December 2000 issued by 廊坊市房地產管理局(Langfang City Real Estate Administration Bureau), title to the said building with a total gross floor area of 4,368.63 sq.m. is vested in Party A.
- (3) Pursuant to Article of Association of wholly owned foreign enterprise dated 21 December 2001 entered into by Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., (referred thereafter as "Party B"), a wholly owned foreign enterprise is established. The major terms stipulated in the Article of Association, inter alia, are stated below:
 - (i) Name of wholly owned foreign enterprise : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$23,000,000
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$9,333,900
- (4) Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People's Republic of China 外經貿冀廊字(1993)0022號 issued by the People's Government of Hebei Province in 2002, Party A is solely incorporated by Party B.
- (5) Pursuant to the Business Licence (Registration No. 企獨冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2002, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.

- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by transfer. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer, lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
 - (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. It is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to future transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid government authority's approval has been obtained.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Article of Association	Yes
State-owned Land Use Right Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
6. Staff Quarters Building 19 Yinhe Main Street Langfang City Hebei Province The PRC	<p>The property comprises a parcel of land with a total site area of approximately 319.14 sq.m. (3,435 sq.ft.), constructed with a 6-storey building of reinforced concrete structure with a total gross floor area of approximately 1,373.38 sq.m. (14,783 sq.ft.) completed in 1998.</p> <p>The land use rights of the property is held for a term commencing from 22 December 2000 and expiring on 9 August 2065 for composite use.</p>	<p>The property is leased to 廊坊新奧物業管理有限公司 (Langfang Xinao Property Management Company Limited), for a term of 4 years commencing from 1 January 2001 and expiring on 31 December 2004 at an annual rent of RMB329,611 inclusive of all charges listed in Note 6(i), as staff quarters.</p>	<p>RMB3,010,000</p> <p>(100% interest attributable to the Group: RMB3,010,000)</p>

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊國用 (2000) 字第 01361 號 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau) on 22 December 2000, the title to the property is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred hereinafter as "Party A") for a term commencing from 22 December 2000 and expiring on 9 August 2065 for composite use.
- (2) Pursuant to the Building Ownership Certificate 廊C字自第3289號 dated July 2000 issued by 廊坊市房地產管理局 (Langfang City Real Estate Administration Bureau), title to the said buildings with a total gross floor area of 1,373.38 sq.m. is vested in Party A.
- (3) Pursuant to Article of Association of wholly owned foreign enterprise dated 21 December 2001 entered into by Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., (referred thereafter as "Party B"), a wholly owned foreign enterprise is established. The major terms stipulated in the Article of Association, inter alia, are stated below:
 - (i) Name of wholly owned foreign enterprise : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$23,000,000
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$9,333,900
- (4) Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People's Republic of China 外經貿冀廊字 (1993) 0022號 issued by the People's Government of Hebei Province in 2002, Party A is solely incorporated by Party B.
- (5) Pursuant to the Business Licence (Registration No. 企獨冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2002, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.

- (6) The Lease Agreement entered into between Party A (the “Landlord”) and 廊坊新奥物業管理有限公司 (Langfang Xiniao Property Management Company Limited) (the “Tenant”) dated 1 January 2001, which contains, inter alia, the following information:
- (i) The charges included in the annual rent comprises apportioned building depreciation, building routine maintenance fees common area usage/maintenance charges and relevant charges in respect of hygiene, environment, gardening, air-conditioning, fire services, security, insurance, water, electricity and telecommunication;
 - (ii) The rent will not be adjusted within the first year; and
 - (iii) If adjustment is required after the first year rental period, the new rent shall be increased according to the inflation rate announced by the state provided that the new rent shall not exceed an increment rate of 8%.
- (7) We have been provided with a legal opinion on the title to the property issued by the Group’s legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by grant. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer, lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
 - (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. It is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to future transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid government authority’s approval has been obtained.
 - (iii) Party A has the building ownership right of the buildings. The lease agreement is registered in relevant government authority and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto. The rights and obligations of both parties thereto are protected and governed by PRC laws.
- (8) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:
- | | |
|--|-----|
| Article of Association | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |
| Lease Agreement | Yes |

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
7. Staff Quarters Building 6 Yingchun Road Langfang Hebei Province The PRC	The property comprises a parcel of level site with a site area of approximately 629.68 sq.m. (6,178 sq.ft.), constructed with 1 brick/concrete construction building with a total gross floor area of approximately 2,017.7 sq.m. (21,719 sq.ft.) completed in 1995. The land use rights for the property are held for a term expiring on 23 December 2047 for composite use.	The property is leased to 新奧集團股份有限公司 (Xinao Group Company Limited) for a term of 4 years commencing from 1 January 2001 and expiring on 31 December 2004 at an annual rental of RMB435,823 inclusive of all charges listed in Note 6(i).	RMB1,805,000 (100% interest attributable to the Group: RMB1,805,000)

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊國用(2000)字第01360號 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau) on 20 December 2000, the land with a site area of approximately 629.68 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred hereinafter as "Party A") for a term expiring on 23 December 2047 for composite use.
- (2) Pursuant to the Building Ownership Certificate 廊自字第1954號 issued by 廊坊市房屋產權籍監理處 (Langfang City Property Rights Supervisory Office) on July 2000, the title to the said building with a total gross floor area of 2,017.7 sq.m. is vested in Party A.
- (3) Pursuant to Article of Association of wholly owned foreign enterprise dated 21 December 2001 entered into by Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., (referred thereafter as "Party B"), a wholly owned foreign enterprise is established. The major terms stipulated in the Article of Association, inter alia, are stated below:
 - (i) Name of wholly owned foreign enterprise : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$23,000,000
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$9,333,900
- (4) Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People's Republic of China 外經貿冀廊字(1993)0022號 issued by the People's Government of Hebei Province in 2002, Party A is solely incorporated by Party B.
- (5) Pursuant to the Business Licence (Registration No. 企獨冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2002, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.

- (6) The Lease Agreement entered into between Party A (the “Landlord”) and 新奧集團股份有限公司 (Xinao Group Company Limited) (the “Tenant”) dated 1 January 2001, which contains, inter alia, the following information:
- (i) The charges included in the annual rent comprises apportioned building depreciation, building routine maintenance fees common area usage/maintenance charges and relevant charges in respect of hygiene, environment, gardening, air-conditioning, fire services, security, insurance, water, electricity and telecommunication;
 - (ii) The rent will not be adjusted within the first year; and
 - (iii) If adjustment is required after the first year rental period, the new rent shall be increased according to the inflation rate announced by the state provided that the new rent shall not exceed an increment rate of 8%.
- (7) We have been provided with legal opinion on the title to the property issued by the Group’s legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by grant. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer or lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
 - (ii) Party A has obtained the building ownership right of the buildings under the Building Ownership Certificate. It is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means. However, the aforesaid land or any part thereof relating to future transfer or mortgage of such building shall be transferred or mortgaged after the aforesaid government authority’s approval has been obtained.
 - (iii) Party A has the building ownership right of the building. The lease agreement is registered in relevant government authorities and does not violate any PRC laws or regulations. It is valid and legally binding on and enforceable by both parties thereto. The rights and obligations of both parties thereto are protected and governed by PRC laws.
- (8) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follow:
- | | |
|--|-----|
| Article of Association | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |
| Lease Agreement | Yes |

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
8. Land occupied for laying gas pipelines from Wanzhuang to Langfang Langfang City Hebei Province The PRC	The property comprises a long and narrow parcel of land with a total area of approximately 3,815.87 sq.m. (41,074 sq.ft.). The land use rights are held for a term of 50 years expiring on 18 August 2050 for urban facilities use.	The property is occupied by the Group for laying gas pipeline.	RMB460,000 (100% interest attributable to the Group: RMB460,000)

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊國用(2000)字第00709號 dated 18 August 2000 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau), the land with a site area of 3,815.87 sq.m. (41,074 sq.ft.) is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred thereafter as "Party A") for a term of 50 years commencing from 18 August 2000 and expiring on 18 August 2050 for urban facilities use.
- (2) Pursuant to Article of Association of wholly owned foreign enterprise dated 21 December 2001 entered into by Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., (referred thereafter as "Party B"), a wholly owned foreign enterprise is established. The major terms stipulated in the Article of Association, inter alia, are stated below:
- | | | | |
|-------|---|---|--|
| (i) | Name of wholly owned foreign enterprise | : | 廊坊新奧燃氣有限公司
(Langfang Xinao Gas Company Limited) |
| (ii) | Term of operation | : | 30 years |
| (iii) | Total investment amount | : | US\$23,000,000 |
| (iv) | Registered capital | : | US\$9,333,900 |
| (v) | Proportion of capital contribution | : | Party B – US\$9,333,900 |
- (3) Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People's Republic of China 外經貿冀廊字 (1993) 0022號 issued by the People's Government of Hebei Province in 2002, Party A is solely incorporated by Party B.
- (4) Pursuant to the Business Licence (Registration No. 企獨冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2002, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.
- (5) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- Party A has obtained the land use rights of the aforesaid land legally by grant. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer or lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:
- | | |
|--|-----|
| Article of Association | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
9. Land occupied for laying gas pipeline from Yongqing to Langfang Yongqing County Hebei Province The PRC	The property comprises a long and narrow parcel of land with total site area of approximately 9,045.00 sq.m. (97,360 sq.ft.). The land use rights are held for a term of 50 years expiring on 17 August 2050 for the purpose of laying gas pipelines.	The property is occupied by the Group for laying gas pipeline.	RMB1,080,000 (100% interest attributable to the Group: RMB1,080,000)

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 永國用(2000)字第012572573號 dated 18 August 2000 issued by 永清縣土地管理局 (Yongqing County Land Administration Bureau), the land with a site area of 9,045.00 sq.m is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, "referred thereafter as "Party A") for a term expiring on 17 August 2050 for the purpose of laying gas pipelines.
- (2) Pursuant to Article of Association of wholly owned foreign enterprise dated 21 December 2001 entered into by Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., (referred thereafter as "Party B"), a wholly owned foreign enterprise is established. The major terms stipulated in the Article of Association, inter alia, are stated below:

(i)	Name of wholly owned foreign enterprise	:	廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
(ii)	Term of operation	:	30 years
(iii)	Total investment amount	:	US\$23,000,000
(iv)	Registered capital	:	US\$9,333,900
(v)	Proportion of capital contribution	:	Party B – US\$9,333,900

- (3) Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People's Republic of China 外經貿冀廊字 (1993) 0022號 issued by the People's Government of Hebei Province in 2002, Party A is solely incorporated by Party B.
- (4) Pursuant to the Business Licence (Registration No. 企獨冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2002, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.
- (5) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:

Party A has obtained the land use rights of the aforesaid land legally by grant. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer or lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.

- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Article of Association	Yes
State-owned Land Use Right Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
10. Land occupied for laying gas pipelines from Ancu Langfang Langfang City Hebei Province The PRC	<p>The property comprises a long and narrow parcel of land with a total site area of approximately 3,100.02 sq.m. (33,369 sq.ft.).</p> <p>The land use rights are held for a term of 50 years expiring on 20 August 2050 for the purpose of laying gas pipelines.</p>	The property is occupied by the Group for laying gas pipeline.	<p>RMB370,000</p> <p>(100% interest attributable to the Group: RMB370,000)</p>

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 安國用(2000)字第0457號 dated 20 August 2000 issued by 廊坊市安次區土地管理局 (Langfang City Ancu District Land Administration Bureau), the land with a site area of 3,100.02 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred thereafter as "Party A") for a term commencing from 20 August 2000 and expiring on 20 August 2050 for the purpose of laying gas pipelines.
- (2) Pursuant to Article of Association of wholly owned foreign enterprise dated 21 December 2001 entered into by Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., (referred thereafter as "Party B"), a wholly owned foreign enterprise is established. The major terms stipulated in the Article of Association, inter alia, are stated below:
 - (i) Name of wholly owned foreign enterprise : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$23,000,000
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$9,333,900
- (3) Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People's Republic of China 外經貿冀廊字 (1993) 0022號 issued by the People's Government of Hebei Province in 2002, Party A is solely incorporated by Party B.
- (4) Pursuant to the Business Licence (Registration No. 企獨冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2002, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.
- (5) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:

Party A has obtained the land use rights of the aforesaid land legally by grant. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer or lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Article of Association	Yes
State-owned Land Use Right Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
11. A parcel of land located at the northern side of Wanzhuang Petroleum Factory Planning District Langfang City Hebei Province The PRC	<p>The property comprises a parcel of land with a total site area of approximately 10,869.32 sq.m. (116,997 sq.ft.).</p> <p>The land use rights of the portion of land with an area of approximately 2,348.23 sq.m. (25,276 sq.ft.) is granted for a term expiring on 15 June 2068. The remaining portion of the land is of allocative nature and held for an indefinite term. The whole parcel of land is for residential and natural gas distribution station uses.</p>	The property is currently a vacant site.	<p>RMB540,000</p> <p>(100% interest attributable to the Group: RMB540,000)</p>

Notes:

- (1) Pursuant to a State-owned Land Use Right Certificate 廊國用(1999)字第01309號 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau) on 8 August 1999, the land use rights to the property 廊坊新奧燃氣有限公司(Langfang Xinao Gas Company Limited, referred hereinafter as "Party A").
- (2) A portion of the aforesaid land of approximately 8,521.09 sq.m. is allocated land ("Allocated Portion") and the remaining portion of 2,348.23 sq.m. is transferable land ("Remaining Portion"). The Allocated Portion cannot be leased, transferred, mortgaged or changed for other uses before obtaining approval of the relevant government authority and completing relevant land grant procedure and payment of land premium. For the purpose of this valuation, we have disregarded this restriction in our valuation and the allocated land portion of the property has no commercial value due to its in-transferability in the open market.
- (3) Pursuant to Article of Association of wholly owned foreign enterprise dated 21 December 2001 entered into by Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., (referred thereafter as "Party B"), a wholly owned foreign enterprise is established. The major terms stipulated in the Article of Association, inter alia, are stated below:
 - (i) Name of wholly owned foreign enterprise : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$23,000,000
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$9,333,900
- (4) Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People's Republic of China 外經貿冀廊字 (1993) 0022號 issued by the People's Government of Hebei Province in 2002, Party A is solely incorporated by Party B.
- (5) Pursuant to the Business Licence (Registration No. 企獨冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2002, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.

- (6) We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal adviser, which contains, inter alia, the following information

Party A has obtained the land use rights of the Remaining Portion legally by grant. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium in respect of the Remaining Portion has been fully paid. However, whether Party A has paid all land premium in respect of the Remaining Portion shall not affect its legal rights as the holder of the State-owned Land Use Right of completing such registration procedure but Party A shall complete the registration procedure with the relevant government authority for future transfer or lease or mortgage of the Remaining Portion. There is no legal impediment for Party A in completing such registration procedure.

- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Article of Association	Yes
State-owned Land Use Right Certificate	Yes
Building Ownership Certificate	N/A
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
12. Huludao Processing Station 2 Shanshui Road Longwan New District Huludao City Liaoning Province The PRC	<p>The property comprises two adjoining levelled sites with a total area of approximately 19,803.00 sq.m. (213,159 sq.ft.), constructed with eight single or multi-storey buildings of brick/concrete construction completed in 1998.</p> <p>The buildings include a composite plant, pressure regulating plant and workshops. The total gross floor area of these buildings is approximately 3,377.24 sq.m. (36,353 sq.ft.).</p> <p>The land use rights of the property are held for 2 respective terms expiring on 9 August 2050 and 26 April 2044 for urban facilities use.</p>	The property is occupied by the Group for administration and manufacturing purposes.	RMB7,240,000 (90% interest attributable to the Group: RMB6,516,000)

Notes:

- (1) Pursuant to two State-owned Land Use Right Certificates 葫蘆島國用(2000)字第1100159&1100160號 issued by 葫蘆島市土地管理局 (Huludao City Land Administration Bureau), the land with a total site area of 19,803.00 sq.m. is vested in 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited, referred thereafter as "Party A") for two respective terms expiring on 9 August 2050 and 26 April 2044 respectively for urban facilities use.
- (2) Pursuant to 8 Building Ownership Certificates 房字第077137, 078061, 078065, 078066, 078067, 078071, 078078 & 078079號, issued by 葫蘆島市房屋產權監理處 (Huludao City Property Rights Supervisory Office) on 30 September 2000, the said buildings with a total floor area of 3,377.24 sq.m is held by Party A.
- (3) Pursuant to the Sino-foreign equity joint venture contract dated 27 July 2000 entered into between 葫蘆島市城市建設投資公司 (Huludao City Urban Construction Investment Company Limited, referred thereafter as "Party B") and Xinao Huludao Investment Limited (then known as New Profound Investment Co. Ltd., referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of joint venture company : 葫蘆島新奧燃氣有限公司
(Huludao Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$1,725,300
 - (iv) Registered capital : US\$1,207,700
 - (v) Proportion of capital contribution : Party B – US\$120,700
Party C – US\$1,087,000
 - (vi) Joint venture company's products are for domestic sales only.
 - (vii) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.

- (4) Pursuant to the Business Licence (Registration No.企合葫總字第000189號) issued by 中華人民共和國國家工商管理行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 August 2000, Party A is incorporated with registered capital of US\$1,207,700 with term of operation commencing from 7 August 2000 to 6 August 2030.
- (5) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of the aforesaid land legally by transfer. These land use rights can be transferred, leased or mortgaged. According to the relevant PRC law, Party A would only be granted the State-owned Land Use right Certificate after full payment of the land premium. Since Party A has already obtained the relevant State-owned Land Use Right Certificate, it is reasonable to take the view that all Land premium has been fully paid. However, even if Party A had not fully paid all the land premium, it would not in any event affect any of its legal rights as the holder of the State-owned Land Use Right Certificate, other than the requirement to obtain approval from the relevant PRC government authority for future transfer, lease or mortgage of the land. There shall not be any legal impediment for Party A in obtaining such approval from the relevant PRC government authority.
- (ii) Party A has obtained the building ownership rights of these buildings under the Building Ownership Certificate and is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Joint Venture Contract	Yes
State-owned Land Use Right Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
13. 13 Residential Units Block 4, Shenhai Garden Huludao City Liaoning Province The PRC	The property comprises 13 residential units in a 6-storey block, namely Block 4 of Shenhai Garden with a total gross floor area of approximately 1,238.90 sq.m. (13,336 sq.ft.) completed in 1999.	The property is occupied by the Group as staff quarters.	RMB1,730,000 (90% interest attributable to the Group: RMB1,557,000)

Notes:

- (1) Pursuant to the Sale and Purchase Agreement dated 28 March 2000 entered into between 葫蘆島市宏運房地產開發有限責任公司 (Huludao City Hong Yun Real Estate Development Limited Liability Company, referred thereafter as "Party A") and 葫蘆島市新奧天然氣有限責任公司 (Huludao City Xinao Natural Gas Limited Liability Company) (now known as 葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited, 90% interest of which is now held by the Group, referred thereafter as "Party B"), Party B agreed to purchase from Party A 13 residential units with a total gross floor area of approximately 1,238.90 sq.m. at a consideration of RMB1,690,334.80.
- (2) Pursuant to 13 Building Ownership Certificates issued by 葫蘆島市房屋產權監理處 (Huludao City Property Rights Supervisory Office) on 2 November 2000, titles to the said units with a total gross floor area of approximately 1,238.90 sq.m. are vested in Party B. The details of which are listed as follows:

	Certificate nos.	Registered owner	Gross floor area	
			Units	sq.m.
1.	房字第073489號	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited)	4-2-11	76.50
2.	房字第078659號	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited)	4-2-6	99.76
3.	房字第073484號	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited)	4-4-8	120.23
4.	房字第078643號	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited)	4-1-1	97.06
5.	房字第078658號	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited)	4-1-10	99.74
6.	房字第073475號	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited)	4-4-11	87.42
7.	房字第078656號	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited)	4-2-9	95.94
8.	房字第073488號	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited)	4-2-1	95.94
9.	房字第078644號	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited)	4-4-9	97.06
10.	房字第078645號	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited)	4-2-12	76.50
11.	房字第073514號	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited)	4-2-10	99.76
12.	房字第078657號	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited)	4-4-12	72.76
13.	房字第073513號	葫蘆島新奧燃氣有限公司 (Huludao Xinao Gas Company Limited)	4-4-2	120.23
Total:				1,238.90

- (3) According to a State-owned Land Use Right Certificate 葫國用(97)字第1006012號 issued by 葫蘆島市人民政府 (Huludao City People's Government) provided to us, a parcel of land with the following particulars is vested in 葫蘆島市宏運房地產開發有限責任公司.

Location : Longwan District, Wanxin District, East of Junten District (Longcheng Road North)

Use : Residential

Site area : 33,410 sq.m.

Tenure : 50 years commencing from 8 June 1993

- (4) Pursuant to the Sino-foreign equity joint venture contract dated 27 July 2000 entered into between 葫蘆島市城市建設投資有限公司 (Huludao City Urban Construction Investment Company Limited) (referred thereafter as "Party C") and Xinao Huludao Investment Limited (referred thereafter as "Party D"), both parties agreed to establish a joint venture company. The major terms stipulated in the agreement, inter alia, are stated below:

- (i) Name of joint venture company : 葫蘆島新奧燃氣有限公司
(Huludao Xinao Gas Company Limited)
- (ii) Term of operation : 30 years
- (iii) Total investment amount : US\$1,725,300
- (iv) Registered capital : US\$1,207,700 (equivalent to RMB10,000,000)
- (v) Proportion of capital contribution : Party C – US\$120,700
Party D – US\$1,087,000

(vi) Joint venture company's products are for domestic sales only.

(vii) In the case that any party intends to sell or transfer its interests (part or whole) in the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.

- (5) Pursuant to the Business Licence (Registration No. 企合葫總字第000189號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 August 2000, Party B was incorporated with registered capital of US\$1,207,700 with term of operation commencing from 7 August 2000 to 6 August 2030.

- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:

Party B has obtained the building ownership rights of the buildings under the Building Ownership Certificates. As the developer of the property has obtained Land Use Right Certificate of the property and title certificates of certain commodity buildings in China currently have also not specified the land titles, thus notwithstanding that the status of the land use rights of the related land has not been specified therein, Party B is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means.

- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Joint Venture Contract	Yes
Acquisition Agreement of Residential Units	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
14. Miyun Processing Station Jizhuang Village Mixi Road North Miyun County Beijing Municipality The PRC	The property comprises 2 plots of level sites with a total site area of approximately 9,982.48 sq.m. (107,451 sq.ft.), constructed with two single storey buildings of brick/concrete structure with a total gross floor area of approximately 450.69 sq.m. (4,851 sq.ft.) completed in 2001. The land use rights of the property are held for a term expiring on 18 August 2050 for industrial use.	The property is occupied by the Group for manufacturing purposes.	RMB2,620,000 (95% interest attributable to the Group: RMB2,489,000)

Notes:

(1) Pursuant to two State-owned Land Use Right Certificates 京密國用(2000出)字第0100&0101號 dated 18 August 2000 issued by 密雲縣房屋土地管理局 (Miyun County Building and Land Administration Bureau, referred thereafter as "Party A"), the land with a total site area of approximately 9,982.48 sq.m. is vested in 北京新奧燃氣有限公司 (Beijing Xinao Gas Company Limited, referred thereafter as "Party B") for a term expiring on 18 August 2050 for industrial use.

(2) Pursuant to two Contracts for Grant of State-owned Land Use Right 京密房地出讓合字(2000)第055號 and 056號 both dated 17 August 2000 made between Party A and Party B, Party A agreed to grant the land use rights of two pieces of land with total site area of approximately 9,982.48 sq.m. to Party B for a term of 50 years commencing from the date of issuance of the State-owned Land Use Right Certificate for industrial use at a total consideration of approximately RMB199,649.6. Details of the contracts are being listed as follows:

	京密房地出讓合字 (2000)第055號	京密房地出讓合字 (2000)第056號
Use:	Industrial	Industrial
Site Area:	4,228.78 sq.m.	5,753.7 sq.m.
Maximum Total Gross Floor Area:	810 sq.m.	810 sq.m.
Plot Ratio:	8%	8%
Site Coverage:	8%	8%
Green Area:	≥30%	≥30%
No. of storey for the building (maximum/average):	1/1	1/1

(3) Pursuant to the Building Ownership Certificate 房權證密私字第 01655號 dated 18 August 2000 issued by 北京市房屋土地管理局 (Beijing City Building and Land Administration Bureau), the title to the buildings with a total gross floor area of approximately 450.49 sq.m. is vested in Party B.

(4) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 and its Amendment Agreement dated 25 October 2001 both entered into between 北京市密雲化工公司 (Beijing City Miyun Chemicals Company, referred thereafter as "Party C") and Xinao Miyun Investment Limited (then known as New Profound Capital Construction Development Co. Ltd., referred thereafter as "Party D"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:

(i)	Name of joint venture company	:	北京新奧燃氣有限公司 (Beijing Xinao Gas Company Limited)
(ii)	Term of operation	:	30 years
(iii)	Total investment amount	:	US\$1,205,300
(iv)	Registered capital	:	US\$1,195,600

- (v) Proportion of capital contribution : Party C – US\$59,800
Party D – US\$1,135,800
- (vi) In the case that any party intends to sell or transfer its interests (part or whole) of the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.
- (5) Pursuant to the Business Licence (Registration No. 企合京總字第014976號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce in the PRC) dated 8 August 2000, 北京新奧燃氣有限公司 (Beijing Xinao Gas Company Limited) is incorporated with registered capital of US\$1,195,600 with a term of operation commencing from 8 August 2000 to 7 August 2030.
- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party B has fully paid all land premium and obtained the land use rights of aforesaid land legally by grant. These land use rights can be transferred, leased or mortgaged but the use of the land cannot be changed.
- (ii) Party B has fully paid all land premium and obtained the building ownership's rights of these buildings under the Building Ownership Certificate and is entitled to transfer, lease, mortgage or deal with these buildings by way of other legal means but the use of the land cannot be changed.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:
- | | |
|--|-----|
| Joint Venture Contract | Yes |
| Contract for Grant of State-owned Land Use Right | Yes |
| State-owned Land Use Right Certificate | Yes |
| Building Ownership Certificate | Yes |
| Business Licence | Yes |

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
15. Liaocheng Processing Station Huxi Road Liaocheng City Shandong Province The PRC	The property comprises a parcel of level site with an area of approximately 25,274.50 sq.m. (272,055 sq.ft.), currently constructed with two single storey buildings of brick/concrete structure with a total gross floor area of approximately 847.05 sq.m. (9,118 sq.ft.) completed in March 2001. The land use rights of the property are held for a term of 50 years expiring on 10 December 2049 for urban facilities use.	The property is currently occupied by the Group for manufacturing purposes.	RMB4,290,000 (90% interest attributable to the Group: RMB3,861,000)

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 聊國用 (2000) 字第85號 dated 6 September 2000 issued by 聊城市土地管理局 (Liaocheng City Land Administration Bureau, referred thereafter as "Party A"), the land with a site area of approximately 25,274.50 sq.m. is vested in 聊城新奧燃氣有限公司 (Liaocheng Xinao Gas Company Limited, referred thereafter as "Party B") and the land is held for a term commencing from 6 September 2000 and expiring on 10 December 2049 for urban facilities use.
- (2) Pursuant to the Contract for Grant of State-owned Land Use Right 土合字 (97) 第5號 dated 1 December 1999 made between Party A and Party B (90% of interests held by the Group), Party A agreed to grant the land use rights of the land with a site area of 25,275 sq.m. to Party B for a term expiring on 10 December 2049 at a consideration of approximately RMB3,262,759.82.
- (3) Pursuant to the Building Ownership Certificate 聊房權證閩字第 000104號 dated 15 April 2002 issued by 聊城市房地產管理局 (Liaocheng City Real Estate Administration Bureau), the title to the buildings with a total gross floor area of approximately 847.05 sq.m. is vested in Party B.
- (4) Pursuant to the Sino-foreign equity joint venture contract dated 29 July 2000 entered into between 聊城市熱力公司 (Liaocheng City Heating Company, referred thereafter as "Party C") and Xinao Liaocheng Investment Limited (then known as New Profound Development Co. Ltd., referred thereafter as "Party D"), both parties agreed to establish a joint venture company, the major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of joint venture company : 聊城新奧燃氣有限公司
(Liaocheng Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : RMB22,000,000
 - (iv) Registered capital : RMB16,000,000
 - (v) Proportion of capital contribution : Party C – US\$192,400
Party D – US\$1,740,000
 - (vi) Joint venture company's products are for domestic sales only.
 - (vii) In the case that any party intends to sell or transfer its interests (part or whole) of the joint venture to an unrelated third party, it has to disclose all terms related to the sale or transfer to the other party in writing. The other party has the pre-emptive right to purchase the interests subject to the same terms.

- (5) Pursuant to the Business Licence (Registration No. 企合魯聊總字第004038號1/1) issued by 中華人民共和國國家工商管理行政管理局 (The State Administration Bureau of Industry and Commerce) dated 8 August 2000, Party B is incorporated with registered capital of RMB16,000,000 (equivalent to US\$1,932,400) with term of operations commencing from 8 August 2000 to 7 August 2030.
- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party B has obtained the land use rights of aforesaid land legally by transfer. According to the PRC law, Party B shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party B has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party B has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party B shall obtain the approval of the relevant government authority for the transfer or lease or mortgage of the land. There is no legal impediment for Party B in obtaining such approval from the relevant government authority.
- (ii) Party B has obtained the Building Ownership Certificate of the buildings of the property and is entitled to transfer or lease or mortgage the buildings.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Joint Venture Contract	Yes
State-owned Land Use Right Certificate	Yes
Contract for Grant of State-owned Land Use Right	Yes
Business Licence	Yes
Construction Land Use Planning Permission Certificate	Yes
Temporary Construction Works Planning Permission Certificates	Yes
Construction Commencement of Works Permit	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
16. Changping Processing Station Zheng Ba Street Changping District Beijing Municipality The PRC	<p>The property comprises a level site with a site area of approximately 4,359.40 sq.m. (46,925 sq.ft.).</p> <p>Currently erected on the site is a processing station comprising three 1 to 3-storey buildings of brick/concrete construction with a total gross floor area of approximately 1,685 sq.m. (18,137 sq.ft.) scheduled to be completed in 2001.</p> <p>The land use rights of the property are held for an indefinite term and for processing station uses.</p>	According to the information provided by the Group, the property is currently occupied by the Group for administration and manufacturing uses.	No commercial value (please see note 7)

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 昌國用(1999)字第01-06-1003號 issued by 昌平縣市政管理委員會 (Changping County Urban Administration Committee) on 9 April 1999, the land with a site area of approximately 4,359.40 sq.m. is vested in 昌平縣市政管理委員會 (燃氣站) (Changping County Urban Administration Committee, referred thereafter as "Party A"), for processing station use and the term of land use rights cannot be ascertained.
- (2) Pursuant to the Construction Work Planning Permit (99-昌規建字-033號) issued by 北京市昌平縣規劃管理局 (Beijing City Changping County Planning Committee), the proposed development is permitted to comprise three building blocks with a total gross floor area of approximately 1,685 sq.m.
- (3) Pursuant to three Construction Work Commencement Permits (京建開字99 昌第0022, 0023 & 0024號) issued by 昌平縣城鄉建設委員會 (Changping County Urban and Rural Construction Committee) on 9 June 1999, the proposed development is permitted to comprise three building blocks with a total gross floor area of approximately 1,685 sq.m.
- (4) Pursuant to the Articles of Association of 北京新奧京昌燃氣有限公司 (Beijing Xinao Jingchang Gas Company Limited, referred hereinafter as "Party B") dated 30 July 2001, 新奧昌平投資有限公司 (Xinao Changping Investment Limited, referred hereinafter as "Party C") and 北京市昌平區市政經濟發展總公司 (Beijing City Changping Urban Economic Development Corporation, referred hereinafter as "Party D") agreed to establish a PRC joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of the joint venture company : 北京新奧京昌燃氣有限公司 (Beijing Xinao Jingchang Gas Company Limited)
 - (ii) Term of operation : 30 years from the date of the issuance of the Business License
 - (iii) Registered capital : RMB9,900,000
 - (iv) Total investment amount : RMB14,000,000
 - (v) Proportion of capital contribution : Party C – RMB7,920,000
Party D – RMB1,980,000
- (5) Pursuant to the Business Licence (Registration No. 企合京總字第016136號) issued by 北京市工商行政管理局 (Beijing City State Administration of Industry and Commerce) on 16 August 2001, Party B is incorporated with registered capital of RMB9,900,000 with a term of operation commencing from 16 August 2001 to 15 August 2031.

- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party B is currently applying for the State-owned Land Use Right Certificate. There is no legal impediment for Party B in obtaining the State-owned Land Use Right Certificate.
 - (ii) Party B is currently applying for the Building Ownership Certificate. There is no legal impediment for Party B in obtaining the Building Ownership Certificate.
- (7) As Party B is not entitled to transfer, lease or mortgage the property, we have not opine a commercial value to the property. The capital value of the property as at the date of valuation, assuming the property can be freely transferred, is RMB3,630,000.
- (8) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion area as follows:

Joint Venture Contract	Yes
State-owned Land Use Right Certificate	No (under application)
Business Licence	Yes
Construction Work Planning Permit	Yes
Construction Work Commencement Permits	Yes
Testification of Land Administration Bureau	Yes
Testification of Real Estate Administration Bureau	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
17. Pinggu Processing Station Xinggu Development Area District 11 Pinggu County Beijing Municipality The PRC	The property comprises a level site with a site area of approximately 12,591.28 sq.m. (135,533 sq.ft.). Currently erected on the site are various single-storey buildings of brick/concrete construction with total gross floor area of approximately 554 sq.m. (5,963 sq.ft.) completed in 2001.	The property is occupied by the Group for administration and manufacturing purposes.	RMB2,260,000 (please see note 5) (70% interest attributable to the Group: RMB1,582,000)

Notes:

- (1) Pursuant to the State-owned land Use Right Certificate 京平國用(2001出)字第01209號 dated 20 November 2001 issued by Beijing Land Resources and Building Administration of Bureau, the land with a site area of 12,591.28 sq.m. is vested in 北京新奧京谷燃氣有限公司 (Beijing Xinao Jinggu Gas Company Limited, referred thereafter as "Party A") for a term expiring on 17 January 2051 for industrial uses.
- (2) Pursuant to the Joint Venture Contract dated 31 January 2001, 新奧平谷投資有限公司 (Xinao Pinggu Investment Limited, referred thereafter as "Party B") and 平谷縣液化石油氣公司 (Beijing City Pinggu County LPG Company, referred hereinafter as "Party C") agreed to establish a PRC joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of the joint venture company : 北京新奧京谷燃氣有限公司 (Beijing Xinao Jinggu Gas Company Limited)
 - (ii) Term of operation : 30 years from the date of the issuance of the Business License
 - (iii) Registered capital : RMB9,900,000
 - (iv) Total investment amount : RMB14,000,000
 - (v) Proportion of capital contribution : Party B – RMB6,930,000
Party C – RMB2,970,000
- (3) Pursuant to the Business Licence (Registration No. 企合京總字第015952號) issued by 北京市工商行政管理局 (Beijing City State Administration of Industry and Commerce) on 18 June 2001, Party A is incorporated with registered capital of RMB9,900,000 with a term of operation commencing from 18 June 2001 to 17 June 2031.
- (4) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
 - (i) Party A has obtained the land use rights of aforesaid land legally by transfer with a term expiring on 17 January 2051. The land use rights is free from any mortgage, encumbrances or third parties rights. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. Party A is entitled to lease, transfer or mortgage the land use rights.
- (5) As Party A is not entitled to transfer, lease or mortgage the buildings of the property with a total gross floor area of approximately 554 sq.m., we have not taken into account such buildings in our valuation, the capital value of such buildings as at the date of valuation, assuming the property can be freely transferred, is RMB1,040,000.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion area as follows:

Joint Venture Contract	Yes
Land use Agreement	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
18. Land and buildings located at 26 Leyuan West District Pinggu County Beijing Municipality The PRC	<p>The property comprises a level site with a site area of approximately 3,685.5 sq.m. (39,671 sq.ft.).</p> <p>Currently erected on the site are three 1 to 2-storey buildings of brick / concrete construction with a total gross floor area of approximately 1,104.40 sq.m. (11,888 sq.ft.) completed in approximately 1989.</p> <p>The land use rights of the property are held for an indefinite term and for public facilities uses.</p>	The property is occupied by 北京新奧京谷燃氣有限公司 (Beijing Xinao Jinggu Gas Company Limited) as administration office.	No commercial value (please see note 6)

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 京平國用(2001劃)字第1083號 issued by 平谷縣土地管理局 (Pinggu County State Land Administration Bureau) on 7 August 2000, the land with a site area of approximately 3,685.5 sq.m. is vested in 平谷縣液化石油氣公司 (Pinggu County LPG Company, referred thereafter as "Party A") for public facilities uses. The aforesaid land is allocated land.
- (2) Pursuant to the Building Ownership Certificate 平全字第00281號 issued by 平谷縣房地產管理局 (Pinggu County Real Estate Administration Bureau) on 30 November 1989 which included 12 buildings having a total gross floor area of 1,963 sq.m.. However at the date of our inspection only 3 building remains erected on the site and the title to these three buildings with a total gross floor area of approximately 1,104.4 sq.m. is vested in Party A.
- (3) Pursuant to the Joint Venture Contract dated 31 January 2001, 新奧平谷投資有限公司 (Xinao Pinggu Investment Company Limited referred thereafter as "Party B") and Party A agreed to establish a PRC joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of the joint venture company : 北京新奧京谷燃氣有限公司 (Beijing Xinao Jinggu Gas Company Limited)
 - (ii) Term of operation : 30 years from the date of the issuance of the Business License
 - (iii) Registered capital : RMB9,900,000
 - (iv) Total investment amount : RMB14,000,000
 - (v) Proportion of capital contribution : Party B – RMB6,930,000
Party A – RMB2,970,000
- (4) Pursuant to the Business Licence (Registration No. 企合京總字第015952號) issued by 北京市工商行政管理局 (Beijing City State Administration of Industry and Commerce) on 18 June 2001, 北京新奧京谷燃氣有限公司 (Beijing Municipality Xinao Jinggu Gas Company Limited) is incorporated with registered capital of RMB9,900,000 with a term of operation commencing from 18 June 2001 to 17 June 2031.
- (5) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
 - (i) Party B is now applying for the State-owned Land Use Right Certificate. There is no legal impediment for Party B in obtaining the State-owned Land Use Right Certificate.
 - (ii) Party B is currently applying for the Building Ownership Certificate. There is no legal impediment for Party B in obtaining the Building Ownership Certificate.

- (6) As Party B is not entitled to transfer, lease or mortgage the property, we have not opine a commercial value to the property. The capital value of the property as at the date of valuation, assuming the property can be freely transferred, is RMB2,800,000.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion area as follows:

Joint Venture Contract	Yes
State-owned Land Use Right Certificate	No (under application)
Building Ownership Certificate	No (under application)
Business Licence	Yes
Testification of Land Administration Bureau	Yes
Testification of Real Estate Administration Bureau	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
19. Qingdao Processing Station West of Changbeishan Road and North of Jialingjiang Road Qingdao City Shandong Province The PRC	<p>The property comprises a level site with a site area of approximately 2,807.90 sq.m. (30,224 sq.ft.).</p> <p>Currently erected on the site are two single-storey buildings of brick/concrete construction completed in 2001.</p> <p>The land use rights of the property are held for a term expiring on 18 March 2047 for industrial uses.</p>	The property is occupied by the Group for administration and manufacturing purposes.	<p>RMB335,000 (please see note 5)</p> <p>(90% interest attributable to the Group: RMB301,500)</p>

Notes:

- (1) Pursuant to a State-owned Land Use Right Certificate 黃國用(2001)字第415號 issued on 20 November 2001, the land with a site area of approximately 2,807.90 sq.m. is vested in 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited, referred hereafter as “Party A”), for a term expiring on 18 March 2047 for industrial uses.
- (2) Pursuant to the Joint Venture Contract dated 7 June 2001, 新奧黃島投資有限公司 (referred thereafter as “Party B”) and 青島經濟技術開發區熱電燃氣總公司 (referred thereafter as “Party C”) Xinao Huangdao Investment Co Ltd agreed to establish a PRC joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of the joint venture company : 青島新奧燃氣有限公司
(Qingdao Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years from the date of issuance of the Business License
 - (iii) Registered capital : RMB20,000,000
 - (iv) Total investment amount : RMB28,000,000
 - (v) Proportion of capital contribution : Party B – RMB18,000,000
Party C – RMB2,000,000
- (3) Pursuant to the Business Licence (Registration No. 企合魯青總字第008385號) issued by 青島市工商行政管理局 on 12 June 2001, 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited) is incorporated with registered capital of RMB20,000,000 with a term of operation commencing from 30 October 2000 to 12 June 2031.
- (4) We have been provided with legal opinion on the title to the property issued by the Group’s legal advisers on PRC law, which contains, inter alia, the following information:
 - (i) Party A has obtained the land use rights of aforesaid land legally by transfer with a term expiring on 18 March 2047. The land use rights is free from any mortgage, encumbrances or third parties rights. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. Party A is entitled to lease, transfer or mortgage the land use rights.
- (5) As buildings and structures of the property have no sufficient title or documentation proofs, we have excluded such buildings and structures in our valuation.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion area as follows:

Joint Venture Contract	Yes
State-owned Land Use Right Certificate	Yes
Construction Work Completion quality acceptance Certificate	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
20. A parcel of land located at North of Jialingjiang Road West of Road Qingdao City Shandong Province The PRC	The property comprises a plot of level site with an area of approximately 2,164 sq.m. (23,293 sq.ft.) located at North of Jialingjiang Road and West of Changbeishan Road amid the eastern portion of Qingdao.	The property is currently a vacant site.	No commercial value (please see note 6)

Notes:

- (1) Pursuant to the Contract for Grant of State-owned Land Use Right 青開規土合字(2002)第028號 dated 14 March 2002 made between 青島經濟技術開發區·青島市黃島區規劃土地區 (Qingdao Economic and Technology Development Zone and Qingdao Huangshi District Land Planning Bureau, referred thereafter as "Party A") and 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited, referred thereafter as "Party B"), Party A agreed to grant the land use rights of the land with a site area of 2,164 sq.m. to Party B for a term of 50 years commencing from 14 March 2002 and expiring on 13 March 2052 for industrial use at a total consideration of RMB162,300.
- (2) Pursuant to the Construction and Land Use Planning Permission Certificate 建設用地規劃許可證99年第13號 issued by 青島經濟技術開發區規劃土地局 (Qingdao Economic and Technical Development Zone Planning and Land Bureau) to 青島經濟技術開發區熱電燃氣總公司 (referred hereinafter to as "Party A") on August 1999, Party A is permitted to use the land with a total site area of approximately 2,164 sq.m. to construct a pipeline gas station.
- (3) Pursuant to the Joint Venture Contract dated 7 June 2001, 新奧黃島投資有限公司 (referred thereafter as "Party B") and 青島經濟技術開發區熱電燃氣總公司 (referred thereafter as "Party C") Xinao Huangdao Investment Co Ltd agreed to establish a PRC joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of the joint venture company : 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years from the date of issuance of the Business License
 - (iii) Registered capital : RMB20,000,000
 - (iv) Total investment amount : RMB28,000,000
 - (v) Proportion of capital contribution : Party B – RMB18,000,000
Party C – RMB2,000,000
- (4) Pursuant to the Business Licence (Registration No. 企合魯青總字第008385號) issued by 青島市工商行政管理局 on 12 June 2001, 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited) is incorporated with registered capital of RMB20,000,000 with a term of operation commencing from 30 October 2000 to 12 June 2031.
- (5) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:

According to a confirmation issued by 青島經濟技術開發區規劃土地局 (Qingdao Economic and Technical Development Zone Planning and Land Bureau), 青島新奧燃氣有限公司 is now applying for the grant of the land use right certificate of the aforesaid land. Upon payment of the land premium, there is no legal impediment for 青島新奧燃氣有限公司 in obtaining the land use right certificate.
- (6) As 青島新奧燃氣有限公司 is not entitled to transfer, lease or mortgage the property, we have not opine a commercial value to the property. The capital value of the property as at the date of valuation, assuming the property can be freely transferred, is RMB260,000.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Joint Venture Contract	Yes
Contract for Grant of State-owned and Use Right	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
21. Chengyang Processing Station Gumiaotou Village Chengyang Town Chengyang Qingdao City Shangdong Province The PRC	The property comprises a level site with an area of approximately 14,055.00 sq.m. (141,288 sq.ft.), constructed with two single-storey buildings of brick/concrete structure with a total gross floor area of approximately 297 sq.m. (3,197 sq.ft.) completed in 2001.	The property is occupied by the Group for administration and manufacturing purposes.	No commercial value (please refer to note 5)

Notes:

- (1) Pursuant to the Construction and Land Use Planning Permission Certificate 建設用地規劃許可證青城地規字20000028號 issued on 20 July 2000, 青島新奧新城燃氣有限公司 (Qingdao Xinao Gas Company Limited, referred thereafter as "Party A") is permitted to use the land with a site area of approximately 14,055 sq.m. to construct a gas station.
- (2) Pursuant to the Building Ownership Certificate 青城房自管字第1073號 dated 27 March 2002 issued by 青島市城陽區房地產管理處 (Qingdao Chengyang District Real Estate Administration Bureau), the title of a building with gross floor area of 241.66 sq.m. is vested in Party A.
- (3) Pursuant to the Sino-foreign equity joint venture contract dated 31 January 2001 entered into between 青島市城陽區建設工程監理有限公司 (referred thereafter as "Party B") and Xinao Chengyang Investment Limited (referred thereafter as "Party C"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of joint venture company : 青島新奧新城燃氣有限公司
(Qingdao Xinao Xincheng Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$2,300,000
 - (iv) Registered capital : US\$1,610,000
 - (v) Proportion of capital contribution : Party B – US\$161,000
Party C – US\$1,449,000
- (4) Pursuant to the Business Licence (Registration No. 企合魯青總字第008373號) issued by 青島市工商行政管理局 (Qingdao Administration Bureau of Industry and Commerce) dated 13 June 2001, Party A is incorporated with registered capital of US\$1,610,000, with term of operations commencing from 13 June 2001 to 13 June 2031.
- (5) We have been provided with legal opinion on the title of the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:

According to a confirmation issued by 城陽區國土資源局 (Chengyang District State Land Resource Bureau), Party A is now applying for the grant of land use right of the land of the property. Upon payment of the land premium and obtained the land use right certificate, Party A can transfer, lease or mortgage the property.
- (6) As Party A is not entitled to transfer, lease or mortgage the property, we have not opine a commercial value to the property. The capital value of the property as at the date of valuation, assuming the property can be freely transferred, is RMB1,640,000.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Joint Venture Contract	Yes
Construction and Land Use Planning Permission Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
22. Zhucheng Processing Station North Section of Dongwaihuan Road Zhucheng Qingdao Shandong Province The PRC	<p>The property comprises a level site with an area of approximately 14,420 sq.m. (155,217 sq.ft.), constructed with four single-storey buildings of brick/concrete structure with a total gross floor area of approximately 736.1 sq.m. (7,923 sq.ft.) completed in 2001.</p> <p>The land use rights of the property are held for a term of 50 years commencing from the date of approval from the government for industrial (gas station) use.</p>	The property is occupied by the Group for administration and manufacturing purposes.	No commercial value (please refer to note 5)

Notes:

- (1) Pursuant to the Contract for Grant of State-owned Land Use Right 土合字 (2001) 第262號 dated 10 December 2001 made between 諸城市規劃國土局 (Zhucheng Land Planning Bureau, referred thereafter as "Party A") and 諸城新奧燃氣有限公司 (Zhucheng Xinao Gas Company Limited, referred thereafter as "Party B"), Party A agreed to grant the land use rights of the land with a site area of 14,420 sq.m. to Party B for a term of 50 years commencing from the date of approval from the government for industrial (gas station) use at a total consideration of RMB807,520.
- (2) Pursuant to the Sino-foreign equity joint venture contract dated 31 January 2001 entered into between 諸城市燃氣熱力總公司 (Zhucheng Gas Heating Company, referred thereafter as "Party C") and Xinao Zhucheng Investment Limited (referred thereafter as "Party D"), both parties agreed to establish a joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of joint venture company : 諸城新奧燃氣有限公司 (Zhucheng Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$6,000,000
 - (iv) Registered capital : US\$3,000,000
 - (v) Proportion of capital contribution : Party C – US\$600,000
Party D – US\$2,400,000
- (3) Pursuant to the Business Licence (Registration No. 企合維總字第002776號) issued by 濰坊市工商行政管理局 (Weifang Administration Bureau of Industry and Commerce) dated 30 May 2001, Party A is incorporated with registered capital of US\$3,000,000, with term of operations commencing from 30 May 2001 to 29 May 2031.
- (4) We have been provided with legal opinion on the title of the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
 - (i) According to the said Contract for Grant of State-owned Land Use Right, Party B agreed to grant the land use rights of the land to Party A for a term of 50 years. After fully settled the land premium, Party A shall apply for the registration of land use rights of the land and obtain the State-owned Land Use Right Certificate within 30 days. The said Contract for Grant of State-owned Land Use Right does not specified the schedule for paying the land premium.
 - (ii) Upon payment of the land premium, there is no legal impediment for Party A in obtaining the land use right certificate and building ownership certificate.
 - (iii) According to a confirmation issued by 諸城市房地產管理局房管科 (Zhucheng Real Estate Administration Bureau Building Administration Department), Party A is now applying for the grant of Building Ownership Certificate for three buildings of the property with gross floor area of 555 sq.m., there is no legal impediment for Party A in obtaining the Building Ownership Certificate.

- (5) As Party A is not entitled to transfer, lease or mortgage the property, we have not opine a commercial value to the property. The capital value of the property as at the date of valuation, assuming the property can be freely transferred, is RMB2,200,000.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Joint Venture Contract	Yes
Contract for Grant of State-owned Land Use Right	Yes
Testification of Land Administration Bureau	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
23. A parcel of land located at South of Xihutum Chun Langfang City Hebei Province The PRC	<p>The property comprises a plot of level site with an area of approximately 666.67 sq.m. (7,176 sq.ft.) located at the south of Xihutum amid the eastern portion of Langfang.</p> <p>The property comprises a single-storey building with gross floor area of 47 sq.m. (506 sq.ft.) approximately completed in 2001.</p> <p>The land use rights of the property is held for a term commencing from 11 May 2001 and expiring on 7 April 2051 for urban facilities uses.</p>	The property is currently occupied by the Group for administration and manufacturing purpose.	<p>RMB180,000</p> <p>(100% interest attributable to the Group: RMB180,000)</p>

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊國用(2001)字第0378號 dated 11 May 2001 issued by 廊坊市土地管理局(Langfang City Land Administration Bureau), the land with a site area of 666.67 sq.m. is vested in 廊坊新奧燃氣有限公司(Langfang Xinao Gas Company Limited, referred thereafter as "Party A") for a term commencing from 11 May 2001 and expiring on 7 April 2051 for urban facilities uses.
- (2) Pursuant to the Building Ownership Certificate 廊坊市房權証字第036號 dated 3 April 2002 issued by 廊坊市房地產管理局(Langfang Real Estate Administration Bureau), the ownership of the building with gross floor area of 47 sq.m. is vested in Party A.
- (3) Pursuant to Article of Association of wholly owned foreign enterprise dated 21 December 2001 entered into by Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., (referred thereafter as "Party B"), a wholly owned foreign enterprise is established. The major terms stipulated in the Article of Association, inter alia, are stated below:
 - (i) Name of wholly owned foreign enterprise : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$23,000,000
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$9,333,900
- (4) Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People's Republic of China 外經貿冀廊字 (1993) 0022號 issued by the People's Government of Hebei Province in 2002, Party A is solely incorporated by Party B.
- (5) Pursuant to the Business Licence (Registration No. 企獨冀廊總字第000134號) issued by 中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2002, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.

- (6) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of aforesaid land legally by transfer with a term expiring on 7 April 2051. The land use rights is free from any mortgage, encumbrances or third parties rights. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. According to the notes in the said State-owned Land Use Right Certificate, Party A is entitled to lease, transfer or mortgage the land use rights, subject to approval.
 - (ii) Party A has obtained the building ownership of the building of the property and is entitled to lease, transfer or mortgage the building.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Article of Association	Yes
State-owned Land Use Right Certificate	Yes
Building Ownership Certificate	Yes

Group II – Property interests held by the Group under construction in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
24. The Extended Portion of Langfang Development Zone Processing Station Yaohua Road Langfang Economic and Technical Development Zone Langfang City Hebei Province The PRC	<p>The property comprises a levelled site with an area of approximately 19,999.91 sq.m. (215,279 sq.ft.).</p> <p>The property is planned to be developed to a processing station comprising one single storey building of reinforced concrete structure with a total gross floor area of approximately 1,678 sq.m. (18,062 sq.ft.) scheduled to be completed in 2002.</p> <p>The land use rights of the property is held for a term commencing from 30 December 1999 and expiring on 24 November 2048 for industrial use.</p>	The property is currently under construction.	<p>RMB6,980,000</p> <p>(100% interest attributable to the Group: RMB6,980,000)</p>

Notes:

- (1) Pursuant to the State-owned Land Use Right Certificate 廊坊國用(1999)字第0057號 dated 30 December 1999 issued by 廊坊市土地管理局 (Langfang City Land Administration Bureau), the land with a total site area of approximately 19,999.91 sq.m. is vested in 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited, referred thereafter as “Party A”) and the land is held for a term commencing from 30 December 1999 and expiring on 24 November 2048 for industrial use.
- (2) Pursuant to the Construction and Land Use Planning Permission Certificate 建設用地規劃許可證:換268號 issued by 廊坊經濟技術開發區管理委員會 (Langfang Economic and Technology Development Zone Administration Committee) on 9 January 2001, Party A is permitted to use the land with total site area of approximately 19,999.91 sq.m. to construct the extension portion of the Langfang Development Zone Processing Station.
- (3) Pursuant to the Construction Works Planning Permission Certificate 建設工程規劃許可證:換268號 issued by 廊坊經濟技術開發區管理委員會 (Langfang Economic and Technology Development Zone Administration Committee) on 9 January 2001, Party A is permitted to construct the extension portion of the Langfang Development Zone Processing Station with a total gross floor area of approximately 3,000 sq.m..
- (4) Pursuant to a Construction Commencement of Works Permission Certificate 建設項目開工許可證 200-27 開補號 issued by 廊坊經濟技術開發區建設工程管理局 (Langfang Economic and Technology Development Zone Construction Administration Committee) on 18 April 2000, Party A is permitted to start the construction work for the Langfang Development Zone Processing Station.
- (5) Pursuant to Article of Association of wholly owned foreign enterprise dated 21 December 2001 entered into by Xinao Langfang Investment Limited, then known as New Profound International Co. Ltd., (referred thereafter as “Party B”), a wholly owned foreign enterprise is established. The major terms stipulated in the Article of Association, inter alia, are stated below:
 - (i) Name of wholly owned foreign enterprise : 廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years
 - (iii) Total investment amount : US\$23,000,000
 - (iv) Registered capital : US\$9,333,900
 - (v) Proportion of capital contribution : Party B – US\$9,333,900

- (6) Pursuant to the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People's Republic of China 外經貿冀廊字 (1993) 0022號 issued by the People's Government of Hebei Province in 2002, Party A is solely incorporated by Party B.
- (7) Pursuant to the Business Licence (Registration No. 企獨冀廊總字第000134號) issued by中華人民共和國國家工商行政管理局 (the State Administration Bureau of Industry and Commerce) dated 7 March 2002, Party A is incorporated with registered capital of US\$9,333,900 with a term of operation of 30 years commencing from 28 March 1993.
- (8) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:
- (i) Party A has obtained the land use rights of aforesaid land legally by transfer. According to the PRC law, Party A shall only be granted the State-owned Land Use Right Certificate after full payment of the land premium. Party A has now obtained the State-owned Land Use Right Certificate. Accordingly, it is reasonable to take the view that all land premium has been fully paid. However, whether Party A has paid all land premium shall not affect its legal rights as the holder of the State-owned Land Use Right of the aforesaid land but Party A shall obtain the approval of the relevant government authority for future transfer or lease or mortgage of the land. There is no legal impediment for Party A in obtaining such approval from the relevant government authority.
- (ii) All the necessary legal and valid consents, approvals and permits in relation to the construction works of the buildings have been obtained and the same have not been revoked, cancelled or amended. There is no legal impediment for Party A in obtaining the Building Ownership Certificate of such buildings upon completion of the construction works.
- (9) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Article of Association	Yes
State-owned Land Use Right Certificate	Yes
Construction and Land Use Planning Permission Certificate	Yes
Construction Works Planning Permission Certificate	Yes
Business Licence	Yes

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
25. A parcel of land located at Tunjie Road Qingdao Shandong Province The PRC	The property comprises a plot of level site with an area of approximately 20,072 sq.m. (216,055 sq.ft.) located at Tunjie Road amid the eastern portion of Qingdao.	The property is currently a vacant site.	No commercial value (please refer to note 5)

Notes:

- (1) Pursuant to the Contract for Grant of State-owned Land Use Right 青開規土合字(2001)第209號 dated 6 August 2001 made between 青島經濟技術開發區、青島市黃島區規劃土地局 (Qingdao Economic and Technology Development Zone and Qingdao Huangdao District Land Planning Bureau, referred thereafter as "Party A") and 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited, referred thereafter as "Party B"), Party A agreed to grant the land use rights of the land with a site area of 20,072 sq.m. to Party B for a term of 50 years commencing from 6 August 2001 and expiring on 5 August 2051 for public utilities use at a total consideration of RMB1,806,480.
- (2) Pursuant to the Joint Venture Contract dated 7 June 2001, 新奧黃島投資有限公司 (referred thereafter as "Party C") and 青島經濟技術開發區熱電燃氣總公司 (referred thereafter as "Party D") Xinao Huangdao Investment Co Ltd agreed to establish a PRC joint venture company. The major terms stipulated in the contract, inter alia, are stated below:
 - (i) Name of the joint venture company : 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited)
 - (ii) Term of operation : 30 years from the date of issuance of the Business License
 - (iii) Registered capital : RMB20,000,000
 - (iv) Total investment amount : RMB28,000,000
 - (v) Proportion of capital contribution : Party C – RMB18,000,000
Party D – RMB2,000,000
- (3) Pursuant to the Business Licence (Registration No.企合魯青總字第008385號) issued by 青島市工商行政管理局 on 12 June 2001, 青島新奧燃氣有限公司 (Qingdao Xinao Gas Company Limited) is incorporated with registered capital of RMB20,000,000 with a term of operation commencing from 30 October 2000 to 12 June 2031.
- (4) We have been provided with legal opinion on the title to the property issued by the Group's legal advisers on PRC law, which contains, inter alia, the following information:

Upon payment of the land premium, there is no legal impediment for Party B in obtaining the land use right certificate.
- (5) As Party B is not entitled to transfer, lease or mortgage the property, we have not opine a commercial value to the property. The capital value of the property as at the date of valuation, assuming the property can be freely transferred, is RMB4,800,000.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Joint Venture Contract	Yes
Contract for Grant of State-owned Land Use Right	Yes
Article of Association	Yes

Group III – Property interests leased by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
26. Level 2 of a building located at Pipeline Bureau District Six Langfang City Hebei Province The PRC	<p>The property comprises whole floor of level 2 in a 2-storey building completed in approximately 1995. The total floor area is approximately 70 sq.m. (753 sq.ft.).</p> <p>The property is currently subject to a tenancy agreement for a term of 1 year commencing from 25 November 2001 and expiring on 25 November 2002 at an annual rent of RMB8,400 exclusive of water, electricity and other charges.</p>	The property is occupied by the Group as office.	No commercial value
27. A unit on Level 1 located at 1 Yinchun Road Langfang City Hebei Province The PRC	<p>The property comprises a unit on level 1 of a 6-storey building completed in approximately 1998. The total gross floor area is approximately 149.04 sq.m. (1,604 sq.ft.).</p> <p>The property is currently subject to a tenancy agreement for a term of two years commencing from 15 March 2002 at an annual rent of RMB53,200 exclusive of water, electricity and other charges.</p>	The property is occupied by the Group as sales office.	No commercial value
28. Two units on Level 1 West Wing Pipeline Bureau District Nine Langfang City Hebei Province The PRC	<p>The property comprises two office units on level 1 of a 4-storey building completed in approximately November 1999. The total gross floor area is approximately 44.7 sq.m. (481 sq.ft.).</p> <p>The property is currently subject to a tenancy agreement for a term of 1 year commencing from 7 March 2002 and expiring on 6 March 2003 at an annual rent of RMB16,092 exclusive of water, electricity and other charges.</p>	The property is occupied by the Group as office.	No commercial value
29. A unit on Level 1 3-1-8 Binhe Estate Huludao City Liaoning Province The PRC	<p>The property comprises the sales unit in a 2-storey building completed in 1998 with a total gross floor area of approximately 217.95 sq.m. (2,346 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of three years commencing from 18 April 2000 and expiring on 18 April 2003 at an annual rent of RMB31,000 exclusive of water, electricity and other charges.</p>	The property is occupied by the Group for commercial purposes.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
30. Portion of Level 1 74 Dongchang West Road Liaocheng City Shandong Province The PRC	<p>The property comprises portion of level 1 in a 6-storey building completed in August 1998 with a total useable floor area of approximately 400 sq.m. (4,306 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of three years commencing from 18 May 1999 and expiring on 17 May 2002 at an annual rent of RMB170,000 exclusive of water, electricity, telecommunication charges.</p>	The property is occupied by the Group as sales office.	No commercial value
31. Portion of Level 1 Building 11 Menshi Jia South Main Street Miyun County Beijing Municipality The PRC	<p>The property comprises portion of level 1 in a 5-storey building completed in about 1998 with total floor area of approximately 240 sq.m. (2,583 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of three years commencing from 1 January 2000 at an annual rent of RMB100,000 exclusive of water, electricity and air-conditioning charges.</p>	The property is occupied by the Group as sales office.	No commercial value
32. Portion of Levels 1 & 2 Commercial Service Building Kangju South District Miyun County Beijing Municipality The PRC	<p>The property comprises portion of levels 1 & 2 in a 5-storey building completed in 1998 with a total floor area of approximately 205 sq.m. (2,207 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of three years commencing from 19 October 1999 at an annual rent of RMB65,000 exclusive of water, electricity and air-conditioning charges.</p>	The property is occupied by the Group as sales office.	No commercial value
33. Rooms 201, 301, 401 of Block 4 and Rooms 201, 202, 302 of Block 5 Building No. 6 Kangju South District Miyun County, Beijing Municipality The PRC	<p>The property comprises six residential units in Blocks 4 and 5. The buildings are 6-storey completed in 1998. The total floor area of the units is approximately 387.84 sq.m. (4,175 sq.ft.).</p> <p>The property is currently subject to a verbal lease agreement for a term of 1 year commencing from 11 October 2001 at an annual rent of RMB25,560 exclusive of water, electricity and other charges. As advised by the Group, a formal agreement for the said verbal lease agreement will be entered into soon.</p>	The property is occupied by the Group as staff quarters.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
34. Level 16 Hualin Building Qingdao City Shandong Province The PRC	<p>The property comprises the whole floor of level 16 in a 19 storey office building completed in 1998.</p> <p>The gross floor area of the property is 320 sq.m. (3,444, sq. ft.) or thereabouts.</p> <p>The property is held under a lease agreement for a term of 3 years commencing from 23 November 2000 at a monthly rental of RMB140,000 in the first year, RMB150,000 in the second year and RMB150,000 in the third year, all inclusive of service charges.</p>	The property is occupied by the Group as office.	No commercial value
35. A unit at 8-1 Xiangjiang Road Developing District Qingdao City Shandong Province The PRC	<p>The property comprises a unit in a single storey building completed in 1999.</p> <p>The total gross floor area of the property is 145.36 sq.m. (1,565 sq.ft.) or thereabouts.</p> <p>The property is held under a lease agreement for a term of 2 years commencing from 1 November 2000 at an annual rent of RMB75,000 for the 1st year and the rent of 2nd year is subject to both parties agreement exclusive of service charges.</p>	The property is occupied by the Group as office.	No commercial value
36. Portion of Level 1 Construction Bank Office Building Petroleum Mine District Wanzhuang Langfang City Hebei Province The PRC	<p>The property comprises a portion on Level 1 of a 3-storey commercial building completed in 1999 with gross floor area of approximately 30 sq.m. (323 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of 1 year commencing from 1 December 2001 at an annual rent of RMB8,000 exclusive of water, electricity and air-conditioning charges.</p>	The property is occupied by the Group as office.	No commercial value
37. Portion of Levels 1 and 2, 129-133 Huangpujiang Road Qingdao Economic and Technology Development Zone Qingdao City Shandong Province The PRC	<p>The property comprises a portion on Levels 1 and 2 in a 6-storey building completed in 2000 with gross floor area of approximately 1,469.73 sq.m. (15,820 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of 3 years commencing from 1 April 2001 at an annual rent of RMB110,000 exclusive of water, electricity and air-conditioning charges.</p>	The property is occupied by the Group as office.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
38. No.1, Unit 3 Block 25 Nanli Estate Dongguan Changping District Beijing Municipality The PRC	The property comprises an unit on Levels 1 and 2 in a 6-storey building completed in 1999 with gross floor area of approximately 150 sq.m. (1,615 sq.ft.). The property is currently subject to a lease agreement for a term of 3 years commencing from 15 March 2001 at an annual rent of RMB40,000 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as sales office.	No commercial value
39. Room 501, Unit 1 Block No. 21 Xihuanli Estate Changping District Beijing Municipality The PRC	The property comprises an unit on Level 5 in a 6-storey building completed in 2000 with gross floor area of approximately 85 sq.m. (915 sq.ft.). The property is currently subject to a lease agreement for a term of 1 year commencing from 1 February 2002 at an annual rent of RMB6,960, inclusive of heating charge and exclusive of heating supplier.	The property is occupied by the Group as sale office.	No commercial value
40. No. 1-10 Block 9 Zhenbei Chenggen Changping District Beijing Municipality The PRC	The property comprises an unit on Level 1 to 5 in a 6-storey building completed in 2000 with gross floor area of approximately 96 sq.m. (1,033 sq.ft.). The property is currently subject to a lease agreement for a term of 1 year commencing from 31 October 2001 at a monthly rent of RMB550 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as sale office.	No commercial value
41. No. 1, Unit 1 Block No. 2 Zhenbei Chenggen Changping District Beijing Municipality The PRC	The property comprises an unit on Level 2 in a 6-storey building completed in 2000 with gross floor area of approximately 96 sq.m. (1,033 sq.ft.). The property is currently subject to a tenancy agreement for a term of 1 year commencing from 19 March 2002 at an annual rent of RMB9,600 exclusive of water, electricity and other charges.	The property is occupied by the Group as sale office.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
42. A portion on Level 3 East Gate Shibeishi Shizhenwei Dormitory Building Beihuan Road North Changping District Beijing Municipality The PRC	The property comprises a portion on Level 3 in a 4-storey building completed 1998 in with gross floor area of approximately 52 sq.m. (560 sq.ft.). The property is currently subject to a lease agreement for a term of 1 year commencing from 18 October 2001 at an annual rent of RMB8,400 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as sale office.	No commercial value
43. A portion on Level 4 2nd Gate Block 24 Zhenbeihuan Road Changping District Beijing Municipality The PRC	The property comprises a portion on Level 4 in a 6-storey building completed in 2000 with gross floor area of approximately 85 sq.m. (915 sq.ft.). The property is currently subject to a lease agreement for a term commencing from 10 August 2001 to 31 July 2002 at an annual rent of RMB7,200 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as sale office.	No commercial value
44. No. 7 Unit 2 Block No. 3 Zhenbei Chengen Changping District Beijing Municipality The PRC	The property comprises an unit on Level 1 in a 6-storey building completed in 2000 with gross floor area of approximately 96 sq.m. (1,033 sq.ft.). The property is currently subject to a lease agreement for a term commencing from 20 July 2001 to 30 June 2002 at an annual rent of RMB8,400 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as sale office.	No commercial value
45. No. 2, Unit 3 Block No. 25 Nanli Estate Dongguan Changping District Beijing Municipality The PRC	The property comprises an unit on Levels 1 and 2 in a 2-storey building completed in 1999 with gross floor area of approximately 161 sq.m. (1,733 sq.ft.). The property is currently subject to a lease agreement for a term of 3 years commencing from 5th March 2001 at an annual rent of RMB45,000 exclusive of water, electricity and other charges.	The property is occupied by the Group as sale office.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
46. A portion on Levels 1 and 2 No. 1-6 Jianshe West Street Pinggu Town Pinggu County Beijing Municipality The PRC	The property comprises a portion on Levels 1 and 2 in a 2-storey building completed in 1999 with gross floor area of approximately 109.32 sq.m. (1,177 sq.ft.). The property is currently subject to a lease agreement for a term commencing from 1 March 2001 to 1 March 2004 at an annual rent of RMB23,000 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as sale office.	No commercial value
47. No. 3, Unit 1 Block 30 Leyuan West Estate Pinggu Town Pinggu County Beijing Municipality The PRC	The property comprises an unit on Level 2 in a 6-storey building completed in 2000 with gross floor area of approximately 106 sq.m. (1,141 sq.ft.). The property is currently subject to a lease agreement for a term of 1 year commencing from 3 November 2001 at an annual rent of RMB4,200 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as office.	No commercial value
48. No. 2, Unit 1 Block 33 Leyuan West Estate Pinggu Town Pinggu County Beijing Municipality The PRC	The property comprises an unit on Level 1 in a 6-storey building completed in 2000 with gross floor area of approximately 97.5 sq.m. (1,049 sq.ft.). The property is currently subject to a lease agreement for a term of 1 year commencing from 1 November 2001 at an annual rent of RMB4,680 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as office.	No commercial value
49. No. 6, Unit 6 Bock 46 Leyuan West Estate Pinggu Town Pinggu County Beijing Municipality The PRC	The property comprises an unit on Level 3 in a 6-storey building completed in 2000 with gross floor area of approximately 81.54 sq.m. (878 sq.ft.). The property is currently subject to a lease agreement for a term of 1 year commencing from 30 July 2001 at an annual rent of RMB5,400 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as office.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
50. No. 2, Unit 5 Block 14 Leyuan West Estate Pinggu Town Pinggu County Beijing Municipality The PRC	The property comprises an unit on Level 1 in a 6-storey building completed in 2000 with gross floor area of approximately 97 sq.m. (1,044 sq.ft.). The property is currently subject to a lease agreement for a term commencing from 10 May 2001 to 10 May 2002 at an annual rent of RMB5,280 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as office.	No commercial value
51. Unit 302 Block 7 5th Estate Huacheng Road Chengyang Qingdao City Shandong Province The PRC	The property comprises an unit on Level 3 in a 6-storey building completed in 1999 with gross floor area of approximately 117 sq.m. (1,259 sq.ft.). The property is currently subject to a verbal lease agreement for a term commencing from 15 December 2001 to 16 December 2002 at an annual rent of RMB7,200 exclusive of water, electricity and air-conditioning charges. As advised by the Group, a formal agreement for the said verbal lease agreement will be entered into soon.	The property is occupied by the Group as office.	No commercial value
52. An unit on Level 2 Unit East 4 2nd Estate Zhongcheng Road Technology Development Center Chengyang Qingdao City Shangdong Province The PRC	The property comprises an unit on Level 2 in a 6-storey building completed in 1999 with gross floor area of approximately 82.94 sq.m. (893 sq.ft.). The property is currently subject to a lease agreement for a term of 2 years commencing from 15 October 2001 at an annual rent of RMB3,800 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as office.	No commercial value
53. Unit 301 Block 7 5th Estate Huacheng Road Chengyang Qingdao City Shangdong Province The PRC	The property comprises an unit on Level 3 in a 6-storey building completed in 1999 with gross floor area of approximately 103 sq.m. (1,109 sq.ft.). The property is currently subject to a lease agreement for a term of 3 years commencing from 1 October 2001 at an annual rent of RMB2,000 for the first year and RMB4,000 thereafter, exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as office.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
54. No. 10 Block 4 Zhongcheng Road Chengyang Qingdao City Shandong Province The PRC	The property comprises an unit on Levels 1 and 2 in a 2-storey building completed in 2000 with gross floor area of approximately 247 sq.m. (2,659 sq.ft.). The property is currently subject to a lease agreement for a term commencing from 18 March 2001 to 18 March 2003 at an annual rent of RMB24,000 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as office.	No commercial value
55. No. 11 Block 4 Zhongcheng Road Chengyang Qingdao City Shandong Province The PRC	The property comprises an unit on Levels 1 and 2 in a 2-storey building completed in 1999 with gross floor area of approximately 197.42 sq.m. (2,125 sq.ft.). The property is currently subject to a lease agreement for a term commencing from 6 March 2001 to 6 March 2003 at an annual rent of RMB20,000 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as office.	No commercial value
56. An unit on Level 1 Unit 2 Block 2 Design Insitute Mingyang Road Chengyang District Chengyang Qingdao City Shandong Province The PRC	The property comprises an unit on Level 1 in a 6-storey building completed in 1998 with gross floor area of approximately 124 sq.m. (1,335 sq.ft.). The property is currently subject to a lease agreement for a term of 2 years commencing from 1 May 2001 at an annual rent of RMB5,500 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as office.	No commercial value
57. Room 501 Unit 2 Block 7 5th Estate Huacheng Road Chengyang Road Chengyang Qingdao City Shandong Province The PRC	The property comprises an unit on Level 5 in a 6-storey building completed in 1999 with gross floor area of approximately 60 sq.m. (646 sq.ft.). The property is currently subject to a lease agreement for a term of 1 year commencing from 13 August 2001 at an annual rent of RMB4,000 exclusive of water, electricity and air-conditioning charges.	The property is occupied by the Group as office.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
58. A portion of 66 Heping Road South Zhucheng Qingdao City Shandong Province The PRC	<p>The property comprises a portion on Levels 1 and 2 in a 2-storey building completed in 1999 with gross floor area of approximately 80 sq.m. (861 sq.ft.).</p> <p>The property is currently subject to a lease agreement for a term of 3 years commencing from 10 May 2001 at an annual rent of RMB32,000 exclusive of water, electricity and air-conditioning charges.</p>	The property is occupied by the Group as sale office.	No commercial value
59. Units 105, 106, 206 and 606 Longcheng Block 2, Units 404 and 501 Longcheng Block 7 Dongpo Estate Zhucheng Qingdao City Shandong Province The PRC	<p>The property comprises six units in a 6-storey building completed in 2000 with a total gross floor area of approximately 492 sq.m. (5,296 sq. ft.).</p> <p>The property is currently subject to a lease agreement for a term of 1 year commencing from 1 January 2002 to 31 December 2002 at an annual rent of RMB21,600 exclusive of water, electricity and air-conditioning charges.</p>	The property is occupied by the Group as office.	No commercial value
60. The 1st to 3rd shop unit Northeast section Jinxiang Building Guoqing West Road Taixing Town Taixing City Jiangsu Province The PRC	<p>The property comprises 3 shop units of a 2-storey building with approximate total gross floor area of 180.76 sq. m. (1,946 sq. ft.) completed in 1999.</p> <p>The property is currently subject to a lease agreement for a term of 6 years commencing from 1 January 2002 at an annual rent of RMB140,000 exclusive of other charges.</p>	The property is occupied by the Group as sale office.	No commercial value
61. 12 units on Level 3 of an office building Tongyu Zhong Road Yancheng City Jiangsu Province The PRC	<p>The property comprises 12 units on the 3rd level of a 3-storey building with approximate gross floor area of 150 sq. m. (1,615 sq. ft.) completed in 2000.</p> <p>The property is currently subject to a lease agreement for a term of 1 year commencing from 11 January 2002 at an annual rent of RMB52,000 exclusive of other charges.</p>	The property is occupied by the Group as office.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
62. Room 206 Dormitory Building of Salt Bureau Nanhai Road Gaoyou Yangzhou City Jiangsu Province The PRC	The property comprises a residential unit on the 6th level of a 6-storey building with approximate gross floor area of 76 sq. m. (818 sq. ft.) completed in 2000. The property is currently subject to a lease agreement for a term of 1 year commencing from 20 February 2002 at an annual rent of RMB5,000 exclusive of other charges.	The property is occupied by the Group as staff quarters.	No commercial value
63. A portion of an office building No. 259 Mashan Road Laiyang City Shandong Province The PRC	The property comprises portion of a single-storey building with approximate gross floor area of 300 sq. m. (3,229 sq. ft.) completed in 2000. The property is currently provided for the occupation of the Group for a term commencing from 4 April 2002 and expiring on 31 December 2002 at no consideration.	The property is occupied by the Group as office.	No commercial value
64. Portion on Level 4 Jiangwei Office Building Zouping County Zouping City Shandong Province The PRC	The property comprises a portion on the 4th level of a 4-storey building with approximate gross floor area of 80 sq. m. (861.12 sq. ft.) completed in 1999. The property is currently provided for the occupation of the Group for a term of 1 year commencing from 5 January 2002 at no consideration.	The property is occupied by the Group as office.	No commercial value
65. Portion of an office building No. 120 Zhongrong Street Bengbu City Anhui Province The PRC	The property comprises a portion of a single-storey building with approximate gross floor area of 454.89 sq. m. (4,896 sq. ft.) completed in 1999. The property is currently provided for the occupation of the Group for a term commencing from 1 December 2001 and expiring on 30 June 2002 at no consideration.	The property is occupied by the Group as office.	No commercial value

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
66. Units 301 and 303 Building No. 1 Hua Ming Building Yantai City Shandong Province The PRC	<p>The property comprises two units on the 3rd level of a 3-storey building with approximate gross floor area of 130.31 sq. m. (1,403 sq. ft.) completed in 1999.</p> <p>The property is currently subject to a lease agreement for a term of 1 year commencing from 11 August 2001 at an annual rent of RMB13,752 exclusive of other charges.</p>	The property is occupied by the Group as office.	No commercial value

Group IV – Property interest leased by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2002
67. Portion of Office Units 4201-4202 42th Floor, Far East Finance Centre 16 Harcourt Road Admiralty Hong Kong	<p>Far East Financial Centre comprises a 44-storey office building erecting over a 3 levels commercial podium plus single level of car-parking basement underneath completed in 1982.</p> <p>The property comprises portion of office units 4201-4202 on 42nd floor with a total usable floor area of approximately 33.5 sq.m. (360 sq.ft.).</p> <p>The property is rented under a lease agreement contract for a term of three years commencing from 1 January 2001 at a monthly rent of HK\$15,000 exclusive of rates, management fees, electricity and water charges.</p>	The property is occupied by the Group as office.	No commercial value

Notes:

- (1) The property is subject to a lease agreement dated 30 December 2000 made between Overseas Way (China) Limited (the "owner") and Xinao Gas Investment Group Limited, the Company's wholly-owned subsidiary (the "tenant").
- (2) According to the lease agreement, the property cannot be sublet to any third party by the tenant.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 July 2000 under the then Companies Law of the Cayman Islands and, therefore, operates subject to the Cayman Islands law.

(A) CONSTITUTION OF THE COMPANY

Set out below is a summary of certain provisions of the memorandum of association (the “Memorandum”) of the Company and articles of association (the “Articles of Association”) of the Company proposed to be adopted by the Company at the Extraordinary General Meeting.

1. THE MEMORANDUM

The Memorandum was adopted on 28 March 2001 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum is available for inspection at the address and in the manner as specified in the section headed “Documents available for inspection” in Appendix IV to this document.

2. THE ARTICLES OF ASSOCIATION

The Articles of Association are proposed to be adopted by the Company at the Extraordinary General Meeting which is available for inspection at the address and in the manner as specified in the section headed “Documents available for inspection” in Appendix IV to this document and include provisions to the following effect:

A. Classes of Shares

The share capital of the Company consists of ordinary shares.

B. Directors

(a) *Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing Shares or attaching to any class of Shares, any Share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any Shareholders or attaching to any class of Shares, any Share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship

thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the Board at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which he has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director of any security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal concerning any other company in which the Director is interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director is beneficially interested in shares of that company, provided that, he, together with any of his associates, is not beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest is derived) or of the voting rights;
- (v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (aa) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which he may benefit;
 - (bb) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

- (vi) any contract or arrangement in which the Director is interested in the same manner as other holders of Shares or debentures or other securities of the Company by virtue only of his interest in Shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by special resolution remove any Director and may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person other than a retiring Director shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, not less than seven and not more than 28 clear days before the day appointed for the meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by a special resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors (other than the managing Director or joint managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding, one-third, shall retire from office by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

C. *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

D. *Variation of rights of existing Shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of Shares, all or any of the rights attached to any class of Shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, and that any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

E. Alteration of Capital

The Company in general meeting may, from time to time, whether or not all the Shares for the time being authorised shall have been issued and whether or not all the Shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (i) consolidate and divide all or any of its share capital into shares of larger amount than its existing Shares. On any consolidation of fully paid Shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of Shares to be consolidated determine which particular Shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (ii) cancel any Shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the Shares so cancelled subject to the provisions of the Companies Law; and
- (iii) sub-divide its Shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any Shares is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any manner authorised and subject to any conditions prescribed by the Companies Law.

F. Special resolution – majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

G. Voting rights (generally, on a poll and right to demand a poll)

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of Shares, at any general meeting on a show of hands every member of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each Shares registered in his name in the register of members of the Company.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so and such person may vote on a poll by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect

of his Shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least five members of the Company present in person or by proxy and entitled to vote; or
- (c) any member or members of the Company present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members of the Company having the right to attend and vote at the meeting; or
- (d) any member or members of the Company present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy.

If a recognised clearing house (or its nominee) is a member of the Company it may, by resolution of its directors or other governing body or by power of attorney, authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

H. Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

I. Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Printed copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send printed copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any Shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

J. Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the Shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the Shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

K. Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any Shares which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any Shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the Shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of Share;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four;
- (e) the Shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any Share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

L. Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own Shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

M. Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of Shares by a subsidiary.

N. Dividends and other methods of distributions

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any Shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any Shares not fully paid throughout the period in respect of which the dividend is paid be apportioned and paid pro rata according to the amounts paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a Share in advance of calls shall be treated as paid up on the Share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a Share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up on the basis that the Shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the Shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of Shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other such payable in cash to a holder of Shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in

writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such Shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

O. Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person

named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

P. Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their Shares (whether on account of the nominal amount of the Shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his Shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the Shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a Share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a Share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any Share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such Shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the Shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any Share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited Shares and not actually paid before the forfeiture. A forfeited Share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose Shares have been forfeited shall cease to be a member of the Company in respect of the forfeited Shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the Shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the Shares forfeited, at the date of forfeiture.

Q. Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the Shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of Shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

R. Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of Shares of the Company is described in sub-paragraph D above.

S. Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

T. Procedure on liquidation

If the Company shall be wound up and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of Shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

U. Untraceable members

The Company shall be entitled to sell any Shares of a member of the Company or the Shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such Shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the Shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers, giving notice of its intention to sell such Shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

(B) SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**A. INTRODUCTION**

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

B. INCORPORATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 20 July 2000 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

C. SHARE CAPITAL

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

D. DIVIDENDS AND DISTRIBUTIONS

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see C above for further details).

E. SHAREHOLDERS' SUITS

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained has been applied and followed by the courts in the Cayman Islands.

F. PROTECTION OF MINORITIES

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

G. DISPOSAL OF ASSETS

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

H. ACCOUNTING AND AUDITING REQUIREMENTS

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

I. REGISTER OF MEMBERS

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

J. INSPECTION OF BOOKS AND RECORDS

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

K. SPECIAL RESOLUTIONS

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

L. SUBSIDIARY OWNING SHARES IN PARENT

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

M. RECONSTRUCTIONS

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

N. TAKE-OVERS

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

O. INDEMNIFICATION

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

P. LIQUIDATION

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

Q. STAMP DUTY ON TRANSFERS

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

R. TAXATION

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (2) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking is for a period of twenty years from 29 August 2000.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

S. EXCHANGE CONTROL

There are no exchange control regulations or currency restrictions in the Cayman Islands.

T. GENERAL

Maples and Calder Asia, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix IV to this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

I. FURTHER INFORMATION ABOUT THE COMPANY**(a) Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 20 July 2000. The Company has established a place of business in Hong Kong at Room 4202, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong and was registered on 24 November 2000 as an overseas company in Hong Kong under Part XI of the Companies Ordinance, with Ms. Lam Hiu Ha of Room 4202, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong appointed as the agent of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. As the Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution which comprises the Memorandum and the Articles of Association. A summary of various parts of its constitution and relevant aspects of the Companies Law is set out in Appendix III to this document.

(b) Changes in share capital

As at the date of incorporation, the initial authorised share capital of the Company was HK\$100,000 divided into 1,000,000 Shares of nominal value of HK0.10 each. On 20 July 2000, two Shares were allotted and issued to the initial subscribers and each of such Shares was then transferred to Mr. Wang and Ms. Zhao respectively on 21 August 2000. On 21 August 2000, the Company allotted eight Shares at par as to seven Shares to Mr. Wang and as to one Share to Ms. Zhao, all of which were issued for cash at par. On 28 March 2001, Mr. Wang transferred eight Shares and Ms. Zhao transferred two Shares to Easywin at a consideration of HK\$0.10 per Share.

On 28 March 2001, the Company increased its authorised share capital from HK\$100,000 to HK\$300,000,000, by the creation of an additional 2,999,000,000 Shares and allotted and issued in aggregate 193,999,990 Shares to Easywin credited as fully paid at HK\$19,399,999 in total for the acquisition by the Company of the entire issued share capital of Xinao Gas Investment from Easywin.

On 9 May 2001, the Company allotted and issued a total of 180,000,000 Shares at HK\$1.15 per Share through an initial public offering by way of placing, and a total of 226,000,000 Shares, credited as fully paid, to Easywin by capitalising RMB81,374,000 (equivalent to approximately HK\$76,768,000) due from the Group to Easywin.

On 22 May 2001, the Company allotted and issued a total of 27,000,000 Shares at HK\$1.15 per Share pursuant to an over-allotment option under the initial public offering aforesaid.

On 25 March 2002, the Company allotted and issued a total of 110,000,000 Shares to Easywin at HK\$3.05 per Share (net the expenses incurred in relation to the placing pursuant to material contract (39) in the section headed "Further information about the business – Summary of material contracts" in this Appendix) pursuant to a subscription agreement dated 12 March 2002 entered into between the Company and Easywin (as described in material contract (40) in the section headed "Further information about the business – Summary of material contracts" in this Appendix.)

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$300,000,000 divided into 3,000,000,000 Shares and the issued share capital of the Company is HK\$73,700,000 divided into 737,000,000 Shares fully paid or credited as fully paid, with 2,263,000,000 Shares remaining unissued. Other than pursuant to any options which have been granted under the Share Option Scheme or pursuant to any options which may be granted under

the Proposed Share Option Scheme if the same is approved by the Shareholders, or pursuant to the exercise of power under the general mandates of the Directors to issue and/or repurchase Shares if the same are approved by the Shareholders, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as aforesaid, there has been no alteration in the share capital of the Company since the date of its incorporation.

(c) Changes in the share capital of subsidiaries

The Company's subsidiaries are referred to in the accountants' report for the Company, the text of which is set out in Appendix I to this document.

The following alterations in the share capital of the Company's subsidiaries have taken place within the two years preceding the date of this document.

Companies incorporated in the PRC

- (1) Jinggu Xinao was originally established on 11 August 2000 as a PRC joint venture with a registered capital of RMB9,900,000.
- (2) Qingdao Xinao was originally established on 30 October 2000 as a PRC joint venture with a registered capital of RMB20,000,000.
- (3) Jingchang Xinao was originally established on 16 November 2000 as a PRC joint venture with a registered capital of RMB9,900,000.
- (4) Zhucheng Xinao was established on 30 May 2001 with a registered capital of US\$3,000,000.
- (5) Xincheng Xinao was established on 13 June 2001 with a registered capital of US\$1,610,000.
- (6) Xinao Gas Equipment was established on 24 June 2001 with a registered capital of US\$360,000.
- (7) Xinao Gas Development was established on 26 June 2001 with a registered capital of US\$6,000,000.
- (8) Yantai Xinao was established on 16 July 2001 with a registered capital of US\$2,100,000.
- (9) Yangzhou Xinao was established on 18 December 2001 with a registered capital of US\$1,300,000.
- (10) Bengbu Xinao was established on 28 December 2001 with a registered capital of RMB110,000,000.
- (11) Zouping Xinao was established on 21 January 2002 with a registered capital of US\$1,200,000.

- (12) Taixing Xinao was established on 4 February 2002 with a registered capital of US\$1,200,000.
- (13) Laiyang Xinao was established on 3 April 2002 with a registered capital of US\$5,000,000.
- (14) Yancheng Xinao was established on 3 April 2002 with a registered capital of RMB50,000,000.

Companies incorporated in the British Virgin Islands

- (15) Following its incorporation on 26 April 2000, Liaocheng BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 17 July 2000.
- (16) Following its incorporation on 26 April 2000, Miyun BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 17 July 2000.
- (17) Following its incorporation on 25 May 2000, Huludao BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 17 July 2000.
- (18) On 17 July 2000, Langfang BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment. On 1 August 2000, Langfang BVI allotted and issued 320 shares and 679 shares, all of US\$1.00 each, to Ms. Zhao and Xinao Gas Investment respectively credited as fully paid and for cash at par respectively.
- (19) On 17 July 2000, Xinao Gas Investment allotted and issued for cash at par 10 shares of US\$1.00 each as to eight shares to Mr. Wang and as to two shares to Ms. Zhao. On 1 August 2000, Xinao Gas Investment allotted and issued 238 shares and 752 shares, all of US\$1.00 each, to Ms. Zhao and Easywin respectively credited as fully paid and for cash at par respectively.
- (20) Following its incorporation on 10 August 2000, Zhucheng BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 11 December 2000.
- (21) Following its incorporation on 15 August 2000, Jingzhou BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 14 December 2000.
- (22) Following its incorporation on 15 August 2000, Chengyang BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 14 December 2000.
- (23) Following its incorporation on 19 December 2000, Changping BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 19 December 2000.
- (24) Following its incorporation on 19 December 2000, Pinggu BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 19 December 2000.
- (25) Following its incorporation on 19 December 2000, Huangdao BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 19 December 2000.
- (26) Following its incorporation on 22 March 2001, Yantai BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 25 May 2001.

- (27) Following its incorporation on 17 August 2001, Southeast China BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 20 August 2001.
- (28) Following its incorporation on 16 November 2001, Jiangsu BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 16 November 2001.
- (29) Following its incorporation on 16 November 2001, Shandong BVI allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 16 November 2001.
- (30) Following its incorporation on 16 November 2001, Xinao Shanghai Investment Limited allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 16 November 2001.
- (31) Following its incorporation on 16 November 2001, Xinao Anhui Investment Limited allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 16 November 2001.
- (32) Following its incorporation on 16 November 2001, Xinao Zhejiang Investment Limited allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 16 November 2001.
- (33) Following its incorporation on 16 November 2001, Xinao Hunan Investment Limited allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 16 November 2001.
- (34) Following its incorporation on 23 January 2002, Xinao Henan Investment Limited allotted and issued for cash at par one share of US\$1.00 to Xinao Gas Investment on 23 January 2002.

Save as aforesaid, there has been no alteration in the share capital of the subsidiaries of the Company within the two years preceding the date of this document.

(d) Repurchase by the Company of its own securities

(1) Source of funds

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles of Association and the applicable laws and regulations of the Cayman Islands. The Company may not repurchase Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange in force from time to time.

(2) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 737,000,000 Shares in issue immediately after the Introduction, would result in up to 73,700,000 Shares being repurchased by the Company during the period up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next

annual general meeting of the Company is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or (iii) the revocation, variation or renewal of the Repurchase Mandate by ordinary resolution of the Shareholders in general meeting, whichever occurs first.

(3) *Reasons for repurchases*

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and its Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share.

(4) *General*

The Company has not repurchased any of its Shares since its incorporation. None of the Directors nor, to the best of their knowledge and having made all reasonable enquiries, any of their respective associates, has any present intention, if the Repurchase Mandate is approved by the Shareholders and is exercised by the Directors, to sell any Shares to the Company or its subsidiaries (as defined in the Companies Ordinance).

The Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company. However, there might be a material adverse impact on the working capital or gearing position of the Company in the event that the Repurchase Mandate is exercised in full.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Memorandum, the Articles of Association and the applicable laws and regulations of the Cayman Islands.

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Codes on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase in the Shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code as a result of such increase.

Any Shares proposed to be repurchased by the Company must be fully paid up. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the minimum prescribed percentage (as defined under the Listing Rules) of the Shares then in issue could only be implemented with the agreement of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above.

No connected person of the Company has notified the Company that he or she has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

(e) Particulars of the Project Companies

(1) Name:	Langfang Xinao
Nature:	Wholly owned foreign enterprise of the PRC
Date becoming a wholly owned foreign enterprise:	21 December 2001
Term of the wholly owned foreign enterprise:	30 years (from 28 March 1993 to 28 March 2023)
Total investment:	US\$23,000,000
Registered capital:	US\$9,333,900
Attributable interest of the Group:	100%
Beneficial shareholder:	Langfang BVI
Number of directors:	5
(2) Name:	Liaocheng Xinao
Nature:	Sino-foreign equity joint venture of the PRC
Date of joint venture contract:	29 July 2000
Term of joint venture:	30 years (from 8 August 2000 to 8 August 2030)
Total investment:	RMB22,000,000
Registered capital:	RMB16,000,000
Attributable interest of the Group:	90%
Approximate capital contribution:	(i) Liaocheng BVI (90%) – US\$1,740,000 (ii) 聊城市熱力公司 (Liaocheng City Heating Company*) (10%) – RMB1,600,000
Number of directors appointed by the Group:	6 out of 7
Profit and loss ratio:	in accordance with the ratio of equity interest
Arrangement upon liquidation:	in accordance with the ratio of equity interest

- (3) Name: Beijing Xinao
Nature: Sino-foreign equity joint venture of the PRC
Date of joint venture contract: 29 July 2000
Term of joint venture: 30 years (from 8 August 2000 to 7 August 2030)
Total investment: US\$1,205,300
Registered capital: US\$1,195,600
Attributable interest of the Group: 95%
Approximate capital contribution: (i) Miyun BVI (95%) – US\$1,135,800
(ii) 北京市密雲化工公司 (Beijing City Miyun Chemicals Company*) (5%) – RMB equivalent to approximately US\$59,800
Number of directors appointed by the Group: 5 out of 7
Profit and loss ratio: in accordance with the ratio of equity interest
Arrangement upon liquidation: in accordance with the ratio of equity interest
- (4) Name: Huludao Xinao
Nature: Sino-foreign equity joint venture of the PRC
Date of joint venture contract: 27 July 2000
Term of joint venture: 30 years (from 7 August 2000 to 6 August 2030)
Total investment: US\$1,725,300
Registered capital: US\$1,207,700
Attributable interest of the Group: 90%
Approximate capital contribution: (i) Huludao BVI (90%) – US\$1,087,000
(ii) 葫蘆島市城市建設投資有限公司 (Huludao City Urban Construction Investment Company Limited*) (10%) – RMB equivalent to approximately US\$120,700
Number of directors appointed by the Group: 6 out of 7
Profit and loss ratio: in accordance with the ratio of equity interest
Arrangement upon liquidation: in accordance with the ratio of equity interest

- (5) Name: Jingchang Xinao
Nature: Sino-foreign equity joint venture of the PRC
Date of joint venture contract: 30 July 2001
Term of joint venture: 30 years (from 16 August 2001 to 15 August 2031)
Total investment: RMB14,000,000
Registered capital: RMB9,900,000
Attributable interest of the Group: 80%
Approximate capital contribution: (i) Changping BVI (80%) – HK\$ equivalent to approximately RMB7,920,000
(ii) 北京市昌平市政經濟發展總公司 (Beijing City Changping Urban Economic Development Corporation*) (20%) – RMB1,980,000
Number of directors nominated by the Group: 6 out of 9
Profit and loss ratio: in accordance with the ratio of equity interest
Arrangement upon liquidation: in accordance with the ratio of equity interest
- (6) Name: Jinggu Xinao
Nature: Sino-foreign equity joint venture of the PRC
Date of joint venture contract: 31 January 2001
Term of joint venture: 30 years (from 18 June 2001 to 17 June 2031)
Total investment: RMB14,000,000
Registered capital: RMB9,900,000
Attributable interest of the Group: 70%
Approximate capital contribution: (i) Pinggu BVI (70%) – HK\$ equivalent to approximately RMB6,930,000
(ii) 平谷縣液化石油氣公司 (Pinggu County LPG Company*) (30%) – Assets with value equivalent to RMB2,970,000
Number of directors nominated by the Group: 6 out of 9
Profit and loss ratio: in accordance with the ratio of equity interest
Arrangement upon liquidation: in accordance with the ratio of equity interest

- (7) Name: Qingdao Xinao
Nature: Sino-foreign equity joint venture of the PRC
Date of joint venture contract: 7 June 2001
Term of joint venture: 30 years (from 12 June 2001 to 12 June 2031)
Total investment: RMB28,000,000
Registered capital: RMB20,000,000
Attributable interest of the Group: 90%
Approximate capital contribution: (i) Huangdao BVI (90%) – HK\$ equivalent to approximately RMB18,000,000
(ii) 青島經濟技術開發區熱電燃氣總公司 (Qingdao Economic and Technical Development Zone Heating, Electricity and Gas Corporation*) (10%) – RMB2,000,000
- Number of directors nominated by the Group: 4 out of 5
Profit and loss ratio: in accordance with the ratio of equity interest
Arrangement upon liquidation: in accordance with the ratio of equity interest
- (8) Name: Xincheng Xinao
Nature: Sino-foreign equity joint venture of the PRC
Date of joint venture contract: 31 January 2001
Term of joint venture: 30 years (from 13 June 2001 to 13 June 2031)
Total investment: US\$2,300,000
Registered capital: US\$1,610,000
Attributable interest of the Group: 90%
Approximate capital contribution: (i) Chengyang BVI (90%) – US\$1,449,000
(ii) 青島城陽建設工程監理有限公司 (Qingdao City Chengyang District Construction Engineering Supervisory Company Limited*) (10%) – RMB equivalent to US\$161,000
- Number of directors to be appointed by the Group: 4 out of 5
Profit and loss ratio: in accordance with the ratio of equity interest
Arrangement upon liquidation: in accordance with the ratio of equity interest

- (9) Name: Zhucheng Xinao
Nature: Sino-foreign equity joint venture of the PRC
Date of joint venture contract: 31 January 2001
Term of joint venture: 30 years (from 30 May 2001 to 29 May 2031)
Total investment: US\$6,000,000
Registered capital: US\$3,000,000
Attributable interest of the Group: 80%
Approximate capital contribution: (i) Zhucheng BVI (80%) – US\$2,400,000
(ii) 諸城市燃氣熱力總公司(Zhucheng City Gas and Heating Corporation*) (20%) – Assets with value equivalent to approximately US\$600,000
Number of directors to be appointed by the Group: 4 out of 5
Profit and loss ratio: in accordance with the ratio of equity interest
Arrangement upon liquidation: in accordance with the ratio of equity interest
- (10) Name: Yantai Xinao
Nature: Wholly owned foreign enterprise of the PRC
Date of establishment: 16 July 2001
Term of the wholly owned foreign enterprise: 30 years (from 16 July 2001 to 15 July 2031)
Total investment: US\$3,000,000
Registered capital: US\$2,100,000
Attributable interest of the Group: 100%
Beneficial shareholder: Yantai BVI
Number of directors: 5

- (11) Name: Bengbu Xinao
Nature: Sino-foreign equity joint venture of the PRC
Date of joint venture contract: 15 October 2001
Term of the venture: 30 years (from 28 December 2001 to 28 December 2031)
Total investment: RMB300,510,000
Registered capital: RMB110,000,000
Attributable interest of the Group: 70%
Approximate capital contribution to be made: (i) Southeast China BVI (70%) – HK\$ equivalent to approximately RMB77,000,000
(ii) 蚌埠市城市建設投資經營有限公司 (Bengbu City Construction Investment Company Limited*) (30%) – Assets and/or cash with value equivalent to approximately RMB33,000,000
Number of directors to be appointed by the Group: 5 out of 7
Profit and loss ratio: in accordance with the ratio of equity interest
Arrangement upon liquidation: in accordance with the ratio of equity interest
- (12) Name: Yangzhou Xinao
Nature: Wholly owned foreign enterprise of the PRC
Date of establishment: 18 December 2001
Term of the wholly owned foreign enterprise: 30 years (from 18 December 2001 to 17 December 2031)
Total investment: US\$1,800,000
Registered capital: US\$1,300,000
Attributable interest of the Group: 100%
Beneficial shareholder: Jiangsu BVI
Number of directors: 3

(13) Name:	Taixing Xinao
Nature:	Sino-foreign equity joint venture of the PRC
Date of joint venture contract:	18 December 2001
Term of joint venture:	30 years (from 4 February 2002) <i>(Note)</i>
Total investment:	US\$1,700,000
Registered capital:	US\$1,200,000
Attributable interest of the Group:	90%
Approximate capital contribution to be made:	(i) Jiangsu BVI (90%) – US\$1,080,000 (ii) 泰興市管道液化氣公司 (Taixing City Piped LPG Company*) (10%) – RMB equivalent to approximately US\$120,000
Number of directors to be appointed by the Group:	4 out of 5
Profit and loss ratio:	in accordance with the ratio of equity interest
Arrangement upon liquidation:	in accordance with the ratio of equity interest

Note : Despite the current temporary business license of Taixing Xinao shows that its term is for a period of six months commencing from 4 February 2002 only, the PRC legal adviser to the Company is of the view that the term of Taixing Xinao should be as stipulated in its future formal business license, which will be the term as already determined in its Certificate of Approval, being for a term of 30 years commencing from 4 February 2002.

(14) Name:	Zouping Xinao
Nature:	Wholly owned foreign enterprise of the PRC
Date of establishment:	21 January 2002
Term of the wholly owned foreign enterprise:	30 years (from 21 January 2002 to 20 January 2032)
Total investment:	US\$1,700,000
Registered capital:	US\$1,200,000
Attributable interest of the Group:	100%
Beneficial shareholder:	Shandong BVI
Number of directors:	3

(15) Name:	Laiyang Xinao
Nature:	Sino-foreign equity joint venture of the PRC
Date of joint venture contract:	2 April 2002
Term of joint venture:	30 years (from 3 April 2002 to 3 April 2032)
Total investment:	US\$12,000,000
Registered capital:	US\$5,000,000
Attributable interest of the Group:	95%
Approximate capital contribution to be made:	(i) Shandong BVI (95%) – US\$4,750,000 (ii) 萊陽市煤氣公司 (Laiyang City Coal Gas Company*) (5%) – RMB and/or assets with value equivalent to approximately US\$250,000
Number of directors to be appointed by the Group:	4 out of 5
Profit and loss ratio:	in accordance with the ratio of equity interest
Arrangement upon liquidation:	in accordance with the ratio of equity interest
(16) Name:	Yancheng Xinao
Nature:	Sino-foreign equity joint venture of the PRC
Date of joint venture contract:	19 March 2002
Term of joint venture:	30 years (from 3 April 2002) ^(Note)
Total investment:	RMB120,000,000
Registered capital:	RMB50,000,000
Attributable interest of the Group:	80%
Approximate capital contribution to be made:	(i) Jiangsu BVI (80%) – HK\$ equivalent to approximately RMB40,000,000 (ii) 上海岩鑫實業投資有限公司 (Shanghai Yanxin Enterprise Investment Company Limited*) (20%) – RMB and/or assets with value equivalent to approximately RMB10,000,000
Number of directors to be appointed by the Group:	4 out of 5
Profit and loss ratio:	in accordance with the ratio of equity interest
Arrangement upon liquidation:	in accordance with the ratio of equity interest

Note: Despite the current temporary business license of Yancheng Xinao shows that its term is for a period of 1 year commencing from 3 April 2002 only, the PRC legal adviser to the Company is of the view that the term of Yancheng Xinao should be as stipulated in its future formal business license, which will be the term as already determined in its Certificate of Approval, being for a term of 30 years commencing from 3 April 2002.

(f) Particulars of Xinao Gas Equipment and Xinao Gas Development

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| (1) Name: | Xinao Gas Equipment |
| Nature: | Wholly owned foreign enterprise of the PRC |
| Date of establishment: | 24 June 2001 |
| Term of the wholly owned foreign enterprise: | 30 years (from 24 June 2001 to 24 June 2031) |
| Total investment: | US\$500,000 |
| Registered capital: | US\$360,000 |
| Attributable interest of the Group: | 100% |
| Beneficial owner: | Langfang BVI |
| Number of directors: | 5 |
| (2) Name: | Xinao Gas Development |
| Nature: | Wholly owned foreign enterprise of the PRC |
| Date of establishment: | 26 June 2001 |
| Term of the wholly owned foreign enterprise: | 30 years (from 26 June 2001 to 25 June 2031) |
| Total investment: | US\$6,000,000 |
| Registered capital: | US\$6,000,000 |
| Attributable interest of the Group: | 100% |
| Beneficial owner: | Langfang BVI |
| Number of directors: | 5 |

II. FURTHER INFORMATION ABOUT THE BUSINESS**(a) Summary of material contracts**

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

- (1) An agreement in Chinese dated 20 July 2000 between Newstar Australia Pty. Ltd. (“Newstar”), Langfang BVI (then known as New Profound International Co. Ltd.), XGCL and Langfang City Gas whereby Newstar agreed to transfer 30.37% of the equity interests in Langfang Xinao to Langfang BVI as supplemented by a supplemental agreement in Chinese between the same parties dated 31 January 2001 regarding the number of directors of Langfang Xinao to be appointed.
- (2) An agreement in Chinese dated 20 July 2000 between Langfang City Gas, Langfang BVI (then known as New Profound International Co. Ltd.), XGCL and Newstar whereby Langfang City Gas agreed to transfer 14.63% of the equity interests in Langfang Xinao to Langfang BVI in consideration for cash in the sum of US\$1,365,300 as supplemented by a supplemental agreement in Chinese dated 31 January 2001 regarding the number of directors of Langfang Xinao to be appointed.
- (3) An agreement in Chinese dated 20 July 2000 between XGCL, Langfang BVI (then known as New Profound International Co. Ltd.), Langfang City Gas and Newstar whereby XGCL agreed to transfer its 50% entire equity interests in Langfang Xinao to Langfang BVI in consideration for cash in the sum of US\$4,667,000.
- (4) An agreement in Chinese dated 24 July 2000 between XGCL, Liaocheng BVI (then known as New Profound Development Co. Ltd.) and 聊城市熱力公司 (Liaocheng City Heating Company*) whereby XGCL agreed to transfer its 90% entire equity interests in Liaocheng Xinao to Liaocheng BVI in consideration for cash in the sum of US\$1,740,000.
- (5) An agreement in Chinese dated 25 July 2000 between XGCL, Huludao BVI (then known as New Profound Investment Co. Ltd.), and 葫蘆島市城市建設投資有限公司 (Huludao City Urban Construction Investment Company Limited*) whereby XGCL agreed to transfer its 90% entire equity interests in Huludao Xinao to Huludao BVI in consideration for cash in the sum of US\$1,087,000.
- (6) An agreement in Chinese dated 27 July 2000 between XGCL, Miyun BVI (then known as New Profound Capital Construction Development Co. Ltd.) and 北京市密雲化工公司 (Beijing City Miyun Chemicals Company*) whereby XGCL agreed to transfer its 80% entire equity interests in Beijing Xinao to Miyun BVI in consideration for cash in the sum of US\$956,500.
- (7) An agreement dated 1 August 2000 between Ms. Zhao, Langfang BVI (then known as New Profound International Co. Ltd.) and Newstar regarding the allotment and issue of 320 shares of US\$1.00 each in Langfang BVI to Ms. Zhao as consideration for Newstar’s transfer of its 30.37% entire equity interests in Langfang Xinao to Langfang BVI under material contract (1) above.

- (8) An agreement dated 1 August 2000 between Ms. Zhao as vendor and Xinao Gas Investment (then known as New Profound Rich Investment Co. Ltd.) as purchaser in relation to the sale and purchase of 320 shares of US\$1.00 each in Langfang BVI (then known as New Profound International Co. Ltd.) in consideration for the allotment and issue of 238 shares of US\$1.00 each in Xinao Gas Investment to Ms. Zhao.
- (9) An agreement in Chinese dated 30 September 2000 between XGCL and Langfang Xinao whereby XGCL agreed to transfer a building erected at a site situated at the junction of Huaxiang Road and Hongrun Road, Langfang Economic and Technical Development Zone, Langfang City, Hebei Province, the PRC (“Langfang Development Zone”) to Langfang Xinao in consideration of the sum of RMB47,900,000.
- (10) An agreement in Chinese dated 30 September 2000 between 廊坊新城房地產開發有限公司 (Langfang Xincheng Property Development Company Limited*) and Langfang Xinao whereby Langfang Xincheng Property Development Company Limited agreed to transfer a piece of land at a site situated in Jinguang Road, Langfang City, Hebei Province, the PRC together with a building thereon to Langfang Xinao in consideration of the sum of RMB7,600,000.
- (11) An agreement in Chinese dated 30 September 2000 between Langfang City Gas and Langfang Xinao whereby Langfang City Gas agreed to transfer various gas equipment and facilities in relation to the processing station located at the northern outskirts of the Langfang city centre to Langfang Xinao in consideration of the sum of RMB1,336,000.
- (12) An agreement in Chinese dated 30 September 2000 between Langfang City Gas and Langfang Xinao whereby Langfang City Gas agreed to transfer various gas equipment and facilities in relation to the processing station located at the southern outskirts of the Langfang city centre to Langfang Xinao in consideration of the sum of RMB576,000.
- (13) An agreement in Chinese dated 30 September 2000 between Langfang City Gas and Langfang Xinao whereby Langfang City Gas agreed to transfer various gas equipment and facilities in relation to the processing station located at the Langfang Development Zone to Langfang Xinao in consideration of the sum of RMB1,019,000.
- (14) An agreement in Chinese dated 30 September 2000 between Langfang City Gas and Langfang Xinao whereby Langfang City Gas agreed to transfer various gas equipment and facilities in relation to the Yongqing to Langfang’s long distance pipeline to Langfang Xinao in consideration of the sum of RMB24,500,000.
- (15) An indemnity and undertaking in Chinese dated 20 December 2000 given by Langfang City Gas in favour of Langfang Xinao in relation to the various gas supply agreements entered into by Langfang City Gas on behalf of Langfang Xinao.
- (16) An agreement in Chinese dated 1 January 2001 between Langfang Xinao and XGCL as supplemented by a supplemental agreement in Chinese dated 18 April 2002 between the same parties whereby Langfang Xinao agreed to rent the 1st floor of the building in Langfang Development Zone as mentioned in material contract (9) above in consideration of the annual rental of RMB1,039,185 and an annual management fee of RMB263,920 for a term of four years commencing from 1 January 2001.

- (17) An agreement in Chinese dated 1 January 2001 between 廊坊新奧物業管理有限公司 (Langfang Xinao Property Management Company Limited*) and Langfang Xinao as supplemented by a supplemental agreement in Chinese dated 18 April 2002 between the same parties whereby Langfang Xinao Property Management Company Limited agreed to provide property management services in relation to the building in Langfang Development Zone as mentioned in material contract (9) above to Langfang Xinao at the consideration of the sum of RMB1,172,254 per annum for a term of four years commencing from 1 January 2001.
- (18) An agreement in Chinese dated 1 January 2001 between XGCL and Xinao Gas Investment whereby XGCL agreed to grant a non-exclusive license to use two of its trademarks to the Group at no costs for a term of 10 years commencing from 1 January 2001.
- (19) A conditional acquisition agreement in Chinese dated 31 January 2001 between, among others, XGCL as vendor and Pinggu BVI as purchaser in relation to the acquisition of 70% equity interest in Jinggu Xinao in consideration of RMB6,930,000.
- (20) A conditional acquisition agreement in Chinese dated 31 January 2001 between, among others, XGCL as vendor and Huangdao BVI as purchaser in relation to the acquisition of 90% equity interest in Qingdao Xinao in consideration of RMB18,000,000.
- (21) A conditional acquisition agreement in Chinese dated 31 January 2001 between, among others, XGCL as vendor and Changping BVI as purchaser in relation to the acquisition of 80% equity interest in Jingchang Xinao in consideration of RMB7,920,000.
- (22) A deed of assignment dated 28 February 2001 between XGCL as assignor, Easywin as assignee and Xinao Gas Investment in relation to the assignment of a loan in the sum of approximately RMB4,775,518.
- (23) An agreement in Chinese dated 28 February 2001 between Liaocheng Xinao, Langfang Xinao, 廊坊開發區市政建設工程有限公司 (Langfang Development Zone Urban Construction Engineering Company Limited*), XGCL and 廊坊新奧建築安裝工程有限公司 (Langfang Xinao Construction and Decoration Engineering Company Limited) whereby Liaocheng Xinao authorised Langfang Xinao (i) to receive on its behalf loans in the sum of RMB8,500,000 owed by Langfang Development Zone Urban Construction Engineering Company Limited to Liaocheng Xinao; (ii) to receive on its behalf loans in the sum of RMB2,000,000 owed by Langfang Xinao Construction and Decoration Engineering Company Limited to Liaocheng Xinao; and (iii) to pay on its behalf to XGCL loans in the sum of approximately RMB5,096,814 owed by Liaocheng Xinao to XGCL; and Langfang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB5,403,186 to Liaocheng Xinao.
- (24) An agreement in Chinese dated 28 February 2001 between Beijing Xinao, Langfang Xinao, 廊坊開發區市政建設工程有限公司 (Langfang Development Zone Urban Construction Engineering Company Limited), XGCL, 廊坊新城房地產開發有限公司 (Langfang Xincheng Property Development Company Limited*) and Langfang City Gas whereby Beijing Xinao authorised Langfang Xinao (i) to receive on its behalf loans in the sum of RMB5,900,000 owed by Langfang Development Zone Urban

- Construction Engineering Company Limited to Beijing Xinao; (ii) to pay on its behalf to Langfang Xincheng Property Development Company Limited loans in the sum of RMB245,500 owed by Beijing Xinao to Langfang Xincheng Property Development Company Limited; (iii) to pay on its behalf to XGCL loans in the sum of approximately RMB5,332,967 owed by Beijing Xinao to XGCL; and (iv) to pay on its behalf to Langfang City Gas loans in the sum of RMB1,176,000 owed by Beijing Xinao to Langfang City Gas; and Beijing Xinao shall thereafter return the net proceeds received in the sum of approximately RMB854,467 to Langfang Xinao.
- (25) An agreement in Chinese dated 28 February 2001 between Huludao Xinao, Langfang Xinao, 廊坊開發區市政建設工程有限公司 (Langfang Development Zone Urban Construction Engineering Company Limited*), and XGCL whereby Huludao Xinao authorised Langfang Xinao (i) to receive on its behalf loans in the sum of RMB6,000,000 owed by Langfang Development Zone Urban Construction Engineering Company Limited to Huludao Xinao; and (ii) to pay on its behalf to XGCL loans in the sum of approximately RMB5,238,402 owed by Huludao Xinao to XGCL; and Langfang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB761,598 to Huludao Xinao.
- (26) An agreement in Chinese dated 28 February 2001 between Qingdao Xinao, Langfang Xinao, 廊坊開發區市政建設工程有限公司 (Langfang Development Zone Urban Construction Engineering Company Limited*), XGCL and Langfang City Gas whereby Qingdao Xinao authorised Langfang Xinao (i) to receive on its behalf loans in the sum of RMB12,000,000 owed by Langfang Development Zone Urban Construction Engineering Company Limited to Qingdao Xinao; (ii) to pay on its behalf to XGCL loans in the sum of approximately RMB916,536 owed by Qingdao Xinao to XGCL; and (iii) to pay on its behalf to Langfang City Gas loans in the sum of RMB219,000 owed by Qingdao Xinao to Langfang City Gas; and Langfang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB10,864,464 to Qingdao Xinao.
- (27) An agreement in Chinese dated 28 February 2001 between Jingchang Xinao, Langfang Xinao and XGCL whereby Jingchang Xinao authorised Langfang Xinao to pay on its behalf to XGCL loans in the sum of approximately RMB10,130,215 owed by Jingchang Xinao to XGCL; and Jingchang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB10,130,215 to Langfang Xinao.
- (28) An agreement in Chinese dated 1 March 2001 between Jinggu Xinao, Langfang Xinao and XGCL whereby Jinggu Xinao authorised Langfang Xinao to receive on its behalf loans in the sum of approximately RMB1,447,365 owed by XGCL to Jinggu Xinao; and Langfang Xinao shall thereafter return the net proceeds received in the sum of approximately RMB1,447,365 to Jinggu Xinao.
- (29) An agreement in Chinese date 7 March 2001 between Langfang City Gas and Langfang Xinao whereby Langfang City Gas agreed to transfer a patent right in relation to CNG truck to Langfang Xinao at no costs.
- (30) A deed for sale and purchase of shares in Xinao Gas Investment dated 28 March 2001 between, among others, Easywin as vendor and the Company as purchaser in relation to the sale and purchase of Easywin's entire equity interests (being 1,000 shares) in Xinao Gas Investment in consideration of the allotment and issue of 193,999,990 Shares by the Company to Easywin.


- (31) A deed of non-competition undertaking dated 28 March 2001 made by Easywin, Mr. Wang, Ms. Zhao and XGCL in favour of the Company whereby each of Easywin, Mr. Wang, Ms. Zhao and XGCL irrevocably undertook and covenanted with the Company that it/he/she will not, and will procure that its/his/her associates will not, directly or indirectly, during the period from the date on which this deed shall take effect up to the date on which this deed is terminated in accordance with the terms and conditions therein, carry on for its/his/her own account or for any other person, firm or organisation any business which is or may be in competition with the piped gas business of the Group or any business relating to gas supply in the PRC.
- (32) A placing and underwriting agreement dated 3 April 2001 between the Company, Easywin, Mr. Wang, Ms. Zhao, executive Directors, Rothschild and the underwriters named therein in relation to the placing of 180,000,000 Shares (subject to adjustment).
- (33) A deed of indemnity dated 3 April 2001 between Easywin, Mr. Wang, Ms. Zhao and the Company for itself and as trustee for its subsidiaries, containing certain indemnities given by Easywin, Mr. Wang and Ms. Zhao in favour of the Group.
- (34) A deed of non-competition undertaking dated 24 April 2001 made by Easywin, Mr. Wang, Ms. Zhao and XGCL in favour of the Company whereby each of Easywin, Mr. Wang, Ms. Zhao and XGCL irrevocably undertook and covenanted with the Company that it/he/she will not, and will procure that its/his/her associates will not, directly or indirectly, during the period from the date on which this deed shall take effect up to the date on which this deed is terminated in accordance with the terms and conditions therein, carry on for its/his/her own account or for any other person, firm or organisation any business which is or may be in competition with the piped gas business of the Group or any business relating to gas supply in the PRC.
- (35) A placing and underwriting agreement dated 26 April 2001 between the Company, Easywin, Mr. Wang, Ms. Zhao, executive Directors, Rothschild and the underwriters named therein in relation to the placing of 180,000,000 Shares (subject to adjustment).
- (36) An agreement in Chinese dated 23 May 2001 between Miyun BVI and 北京市密雲化工公司 (Beijing City Miyun Chemicals Company*) whereby Beijing City Miyun Chemicals Company agreed to transfer its 5% entire equity interests in Beijing Xinao to Miyun BVI in consideration for cash in the sum of RMB400,000.
- (37) An agreement in Chinese dated 23 October 2001 between Miyun BVI and 北京市密雲化工公司 (Beijing City Miyun Chemicals Company*) whereby Beijing City Miyun Chemicals Company agreed to transfer its 10% entire equity interests in Beijing Xinao to Miyun BVI in consideration for cash in the sum of RMB990,000.
- (38) An agreement in Chinese dated 21 December 2001 between Langfang BVI and Langfang City Gas whereby Langfang City Gas agreed to transfer 5% of the equity interests in Langfang Xinao to Langfang BVI in consideration for cash in the sum of RMB10,000,000.
- (39) A placing agreement dated 12 March 2002 between Easywin, the Company and ABN AMRO Bank N.V. and N M Rothschild & Sons Limited, each trading as ABN AMRO Rothschild in relation to the placing of up to 125,000,000 existing Shares at a placing price of HK\$3.05 each.

- (40) A subscription agreement dated 12 March 2002 between Easywin and the Company in relation to the subscription by Easywin of a maximum of 125,000,000 new Shares at a subscription price of HK\$3.05 net the expenses incurred in relation to the placing pursuant to material contract (39) above.
- (41) An agreement in Chinese dated 14 March 2002 between Jiangsu BVI, 上海岩鑫實業投資有限公司 (Shanghai Yanxin Enterprise Investment Company Limited*, “Shanghai Yanxin”) and 鹽城市管道燃氣有限公司 (Yancheng City Piped Gas Company Limited*, “Yancheng Company”) whereby Shanghai Yanxin agreed to transfer its 63.5% equity interests in 江蘇斯岩城市管道燃氣開發有限公司 (Jiangsu Siyan City Urban Piped Gas Development Company Limited*, “Jiangsu Siyan”) to Jiangsu BVI for a consideration of RMB6,350,000 and Yancheng Company agreed to transfer its 16.5% entire equity interests in Jiangsu Siyan to Jiangsu BVI for a consideration of RMB1,650,000 (the “Yancheng Agreement”).
- (42) A supplemental agreement in Chinese dated 14 March 2002 between Jiangsu BVI, Shanghai Yanxin and Yancheng Company supplementing the Yancheng Agreement whereby it was agreed, amongst other matters, that (i) all the rights and liabilities of Jiangsu Siyan would be transferred to a Sino-foreign joint venture company to be called Yancheng Xinao which was to be formed by Jiangsu BVI and Shanghai Yanxin; (ii) the consideration in the sum of RMB6,350,000 payable by Jiangsu BVI to Shanghai Yanxin under the Yancheng Agreement was to be paid by two instalments, the first instalment in the sum of RMB5,450,000 within 15 days upon the issue of the certificate of approval by the relevant PRC authority and the second instalment in the sum of RMB900,000 within 18 months after the payment date of the first instalment; (iii) part of the debts in the sum of RMB8,850,000 so owned by Jiangsu Siyan to Shanghai Yanxin will be paid by Yancheng Xinao to Shanghai Yanxin, and in settlement of such debts, Jiangsu BVI agreed to lend such sum of RMB8,850,000 to Yancheng Xinao, and such sum will remain in Yancheng Xinao to be used for any future increase of registered capital of Yancheng Xinao to be payable by Jiangsu BVI; (iv) Yancheng Xinao shall, upon repayment by Jiangsu BVI to Shanghai Yanxin of the second instalment as referred to in sub-paragraph (ii) above, repay to Shanghai Yanxin the said sum of RMB8,850,000; and (v) the consideration in the sum of RMB1,650,000 payable by Jiangsu BVI to Yancheng Company under the Yancheng Agreement was to be paid directly to Yancheng Xinao in partial settlement of the debts so owed by Yancheng Company to Jiangsu Siyan.
- (43) A guarantee in Chinese dated 14 March 2002 made by the Company in favour of Shanghai Yanxin whereby the Company guaranteed (i) the capital contribution in the sum of RMB6,350,000 payable by Jiangsu BVI in respect of the establishment of Yancheng Xinao under the material contract (42) above; and (ii) the sum of RMB8,850,000 to be lent by Jiangsu BVI to Yancheng Xinao under the material contract (42) above.
- (44) A deed of non-competition undertaking dated 18 April 2002 made by Easywin, Mr. Wang, Ms. Zhao and XGCL in favour of the Company whereby each of Easywin, Mr. Wang, Ms. Zhao and XGCL irrevocably undertook and covenanted with the Company that it/he/she will not, and will procure that its/his/her associates will not, directly or indirectly, during the period from the date on which this deed shall take effect up to the date on which this deed is terminated in accordance with the terms and conditions

therein, carry on for its/his/her own account or for any other person, firm or organisation any business which is or may be in competition with the business currently carried on by any member of the Group and the business relating to gas supply in the PRC.

(b) Intellectual property

As at the Latest Practicable Date, Xinao Gas Investment has obtained a license to use the following trademarks with the right to grant sub-licenses of these trademarks to any other members of the Group pursuant to the material contract (18) referred to in the paragraph headed “Further information about the business – Summary of material contracts” in this Appendix:

Trademark	Place of registration	Class	Registration number	Expiry date
	PRC	11	1175246	13 May 2008
XINAO	PRC	37	1159811	13 March 2008

In addition, Langfang Xinao has obtained the following patent right pursuant to the material contract (29) referred to in the paragraph headed “Further information about the business – Summary of material contracts” in this Appendix:

Patent	Place of registration	Registration number	Expiry date
CNG truck	PRC	ZL 99 2 43718.0	19 August 2009

As at the Latest Practicable Date, the Group has registered the following domain names:

Domain names	Registrant organisation	Date of registration	Date of expiry
xinao.biz	Xinao Gas Investment	15 November 2001	15 November 2003
xinao.info	Xinao Gas Investment	15 August 2001	15 August 2006
xinaogas.biz	Xinao Gas Investment	15 November 2001	15 November 2003
xinaogas.info	Xinao Gas Investment	12 September 2001	12 September 2003

III. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

(a) Directors

(1) Disclosure of interests

The beneficial interests of the Directors in the share capital of the Company and the associated corporations (within the meaning of the SDI Ordinance) of the Company which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have taken under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) once the Shares are listed, or will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed, will be as follows (assuming that their interests will remain unchanged after the Latest Practicable Date):

Name of company	Name of Director	Personal interest	Family interest	Corporate interest	Other interest	Total
The Company	Mr. Wang	-	-	420,000,000 Shares ⁽¹⁾ Approximately 57%	-	420,000,000 Shares Approximately 57%
	Mr. Zhao	-	-	420,000,000 Shares ⁽¹⁾ Approximately 57%	-	420,000,000 Shares Approximately 57%

Note:

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

(2) Particulars of service agreements

- (i) Each of Mr. Wang, Mr. Yang Yu, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Jin Yongsheng, Mr. Yu Jianchao, Mr. Cheung Yip Sang and Mr. Cheng Chak Ngok, being executive Directors, has entered into a service agreement and a supplement agreement with the Company. Particulars of these agreements, except as indicated, are in all material respects identical and are set out below:
- (aa) each service agreement of Mr. Wang, Mr. Yang Yu, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Jin Yongsheng and Mr. Yu Jianchao is of an initial term of three years commencing on 1 March 2001 and expiring on 29 February 2004 and shall continue thereafter until terminated by either party giving to the other not less than six months' prior written notice;
- (bb) each service agreement of Mr. Cheung Yip Sang and Mr. Cheng Chak Ngok commences from 10 April 2002 and expires on 29 February 2004 and shall continue thereafter until terminated by either party giving to the other not less than six months' prior written notice;

- (cc) the annual salary for each of Mr. Wang, Mr. Yang Yu, Mr. Zhao Jinfeng, Mr. Qiao Limin, Mr. Jin Yongsheng and Mr. Yu Jianchao from 1 March 2002 to 28 February 2003 shall be HK\$1,300,000, HK\$800,000, HK\$400,000, HK\$400,000, HK\$500,000 and HK\$400,000 respectively. As from 1 March 2003, the annual salary of each of these executive Directors shall be as determined by the Board, the increment of the annual salary shall not be more than 15% of the annual salary received by these executive Directors for the immediate preceding year;
 - (dd) the annual salary for each of Mr. Cheung Yip Sang and Mr. Cheng Chak Ngok from 10 April 2002 to 9 April 2003 shall be HK\$400,000 and HK\$458,000 respectively during the initial year. As from 10 April 2003 to 29 February 2004, the proportionate annual salary of each of these executive Directors shall be as determined by the Board, the increment of which shall not be more than 15% of the pro rata annual salary received by these executive Directors for the immediate preceding year;
 - (ee) each of the executive Directors is entitled to a management bonus by reference to the audited consolidated net profits of the Group after taxation and minority interests but before extraordinary items (the “Net Profits”) as the Board may approve provided that the aggregate amount of the management bonuses payable to all executive Directors in respect of any financial year of the Group shall not exceed 10% of the Net Profits for the relevant financial year;
 - (ff) Mr. Wang and Mr. Yang Yu are also the directors of XGCL, and under the terms of their respective service agreement with the Company, each of them shall devote at least 70% of his working time and attention, and all of his skill to the discharge of duties of his office as an executive Director and, where relevant, as a director of such other members of the Group in which he holds the office of a director;
 - (gg) each of the executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and management bonus payable to himself; and
 - (hh) each executive Directors has also undertaken not to divulge or communicate confidential or other information or to engage in a competing business during the term of his appointment as executive Director and for at least two years after the expiry or termination of his appointment thereof.
- (ii) Save as disclosed above, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(3) *Directors' remuneration*

- (i) The Company's policies concerning remuneration of executive Directors are:
 - (aa) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;
 - (bb) non-cash benefits may be provided to the Directors under their remuneration package; and
 - (cc) the executive Directors may be granted, at the discretion of the Board, options pursuant to the Proposed Share Option Scheme, as part of their remuneration package.
- (ii) Approximately HK\$4,425,000 (excluding any management bonus which may be paid) as remuneration is expected to be paid to the Directors by the Group in respect of the financial year ending 31 December 2002 pursuant to the present arrangement.
- (iii) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the three financial years ended 31 December 2001 as an inducement to join or upon joining the Company or for loss of office as a director of any member of the Group or of any other notice in connection with the management of the affairs of any member of the Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years ended 31 December 2001.
- (v) The non-executive Director and each of the independent non-executive Directors has been appointed for a term of three years, commencing from 1 March 2001 and expiring on 29 February 2004 and thereafter are eligible for re-election. Save for directors' fees of HK\$60,000 per annum for each of the non-executive Director and the independent non-executive Directors, none of the non-executive Director and independent non-executive Directors is expected to receive any other remuneration for holding their office as non-executive Director or independent non-executive Director, respectively.
- (vi) During the financial year ended 31 December 2001, the aggregate remuneration paid and benefits in kind granted to the Directors who acted in the capacity as a director of the Group were approximately RMB3,798,000. Particulars of emoluments paid to the five persons who received the highest emoluments from the Group for the three financial years ended 31 December 2001 are set out in Note 7 of the section headed "Notes to the financial information" in the accountants' report as set out in Appendix I to this document.

(b) Disclaimers

Save as disclosed herein:

- (1) none of the Directors or chief executives has for the purposes of section 28 of the SDI Ordinance, nor is any of them taken to or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or are required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange;
- (2) none of the Directors nor any of the persons whose names are listed in the paragraph headed “Other information – Consent of experts” in this Appendix is interested, directly or indirectly, in the promotion of, or in any assets which have, within the two years immediately preceding the issue of this document, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (3) none of the Directors nor any of the persons whose names are listed in the paragraph headed “Other information – Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group;
- (4) none of the persons whose names are listed in the paragraph headed “Other information – Consents of experts” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (5) no cash, securities or other benefit has been, or proposed to be, paid, allotted or given within the two years preceding the date of this document to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given in relation to this document; and
- (6) so far as is known to the Directors, save as disclosed in Note 35 of the section headed “Notes to the financial information” in the accountants’ report as set out in Appendix I to this document, none of the Directors, their respective associates or Shareholders who are interested in 5% or more of the issued share capital of the Company have any interests in the five largest customers or the five largest suppliers of the Group.

IV. SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware before and immediately following the Introduction, the persons who will be interested or deemed to be interested under the SDI Ordinance in 10% or more of the Shares then in issue will be as follows:

Name	Number of Shares	Approximate percentage of voting power (%)
Easywin	420,000,000	57
Mr. Wang	420,000,000	57
Ms. Zhao	420,000,000	57

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

Save as disclosed herein, the Directors are not aware of any person who will be directly or indirectly interested in 10% or more of the Shares then in issue or equity interest in any member of the Group representing 10% or more of the equity interest in such company.

V. SUMMARY OF TERMS OF SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme approved and adopted by the resolution passed by the Shareholders on 24 April 2001.

(1) Who may join

The Directors may, at their absolute discretion, invite any full-time employee or executive director of any member of the Group to take up options to subscribe for Shares at a price calculated in accordance with paragraph (5) below.

An option to subscribe Shares may be accepted by a participant within 28 days from the date of the offer of grant of the option and HK\$1.00 is payable by the participant to the Company on acceptance of the option offer.

(2) Duration and termination of the Share Option Scheme

Unless the Share Option Scheme is terminated by resolution of the Shareholders in general meeting or by the Board, the Share Option Scheme shall remain in force for a period of 10 years commencing on its adoption date of 24 April 2001, after which period no further options will be issued but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect and options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(3) Grant of options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time during the lifetime of the Share Option Scheme to make an offer to any participant as the Board may in its absolute discretion select to subscribe for such number of Shares as the Board may determine at the subscription price calculated in accordance with paragraph (5) below.

(4) Restriction on grant of option

No offer for grant of options shall be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of the GEM Listing Rules. In particular, during the period of one month immediately preceding the preliminary announcement of annual results or the publication of interim results or quarterly results, no option should be granted until such information has been announced pursuant to the requirements of the GEM Listing Rules.

(5) Subscription price of Shares

The subscription price for Shares under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and will be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

(6) Exercise of options

An option is personal to the grantee and may not be transferred or assigned. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not less than three years and not more than 10 years to be notified by the Board to each grantee which period of time shall commence on the date of grant of the option and expire on the last day of such period as determined by the Board.

(7) Rights on cease of employment by grantee

If a grantee of an option ceases to be a participant for any reason other than on death, misconduct or certain other grounds, the grantee may exercise the option up to his entitlement at the date of cessation (to the extent he is entitled to exercise at the date of cessation but not already exercised) within the period of three months following the date of such cessation, which date shall be the last actual working day with the relevant member(s) of the Group whether salary is paid in lieu of notice or not, failing which the option will lapse.

(8) Rights on death of grantee

If a grantee of an option dies before exercising the option in full and none of certain events which would be a ground for termination of his employment arises, the personal representative(s) of the deceased grantee may exercise the option up to the entitlement of such grantee at the date of his death (to the extent he is entitled to exercise at the date of cessation but not already exercised) within a period of 12 months from the date of death, failing which the option will lapse.

(9) Rights on a general offer

If a general offer (including any take-over) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) with the terms of the offer having been approved in accordance with applicable laws and regulatory requirements becoming or are declared unconditional, the grantee (or the personal representative(s) of the deceased grantee) may by

notice in writing to the Company exercise the option (to the extent which has become exercisable on the date of such notice and not already exercised) to its full extent or to the extent specified in such notice at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(10) Rights on a compromise or arrangement

If a compromise or arrangement between the Company and its Shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice to the grantee on the same date as it dispatches the notice to each Shareholder or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or the personal representative(s) of the deceased grantee) may until the expiry of the period commencing with such date and ending with the earlier of two months thereafter and the date on which such compromise or arrangement is sanctioned by the court exercise any of his options whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Share Option Scheme. The Company may require the grantee (or the personal representative(s) of the deceased grantee) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(11) Rights on voluntary winding up of the Company

If a notice is given by the Company to its Shareholders to convene a Shareholders' meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, the Company shall on the same date as or soon after it despatches such notice to convene the Shareholders' meeting, give notice thereof to all grantees and thereupon, each grantee (or the legal personal representative(s) of the deceased grantee) may by notice in writing to the Company (such notice shall be received by the Company not later than two Business Days prior to the proposed general meeting) exercise the option (to the extent which has become exercisable and not already exercised) either to its full extent or to the extent specified in such notice, such notice to be accompanied by a payment for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(12) Maximum number of Shares

- (i) The Company may seek approval of its Shareholders in general meetings to authorise Directors to grant Options under the Share Option Scheme and any other share option schemes of the Company in issue entitling the grantees to exercise up to an aggregate of 10% of the total number of Shares in issue from time to time (excluding (a) any Shares issued pursuant to the Share Option Scheme and any other share option schemes of the Company; and (b) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (a)) unless the Company obtains a fresh approval from its Shareholders pursuant to sub-paragraph (ii) below.

- (ii) The Company may seek approval of its Shareholders in general meeting to renew the 10% limit set out in sub-paragraph (i) above such that the total number of Shares in respect of which options may be granted by Directors under the Share Option Scheme and any other share option schemes of the Company in issue shall not exceed 10% of the issued share capital of the Company from time to time (excluding (a) any Shares issued pursuant to the Share Option Scheme and any other share option schemes of the Company; and (b) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (a)).
- (iii) The Company may grant options to specified participant(s) beyond the 10% limit if the grant of such options is specifically approved by the Shareholders in general meeting.

Notwithstanding the above, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time.

(13) Maximum entitlement to each participant

No participant shall be granted an option which, if exercised in full, would result in such participant becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued pursuant to all the options previously granted to him under the Share Option Scheme which have been exercised, and, issuable pursuant to all the options previously granted to him under the Share Option Scheme which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme.

(14) Grant of options to connected persons of the Company

- (i) Any grant of options to a participant who is a connected person (as defined in the GEM Listing Rules), such as director, chief executive or substantial shareholder of the Company or their respective associates (as defined under the GEM Listing Rules), must be approved by the independent non-executive Directors (excluding independent non-executive Director who is the grantee).
- (ii) Where the Board proposes to grant any option to a participant who is a substantial Shareholder (as defined under the GEM Listing Rules) or any of its associates (as defined under the GEM Listing Rules), would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to him in the 12-month period up to and including the date of such grant:
 - (a) representing in aggregate more than 0.1% of the total number of Shares in issue; and
 - (b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000,

such proposed grant of options must be approved by the Shareholders in general meeting with all connected persons of the Company abstain from voting (except where any connected person may vote against the relevant resolution). In such a case, the Company shall send a circular to its Shareholders containing all those terms as required under the GEM Listing Rules.

(15) Lapse of an option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the option period;
- (ii) the expiry of the periods referred to in paragraphs (7), (8) or (9) above;
- (iii) subject to the scheme of arrangement for reconstruction or amalgamation becoming effective, the expiry of the period referred to in paragraph (10) above;
- (iv) the date on which the grantee ceases to be an employee or director of the relevant member(s) of the Group by reason of the termination of his employment on grounds including, but not limited to, misconduct, bankruptcy, insolvency and conviction of certain criminal offence;
- (v) the date of the commencement of the winding-up of the Company; or
- (vi) the date on which the grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to any option (or enters into any agreement so to do) in breach of the Share Option Scheme.

(16) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to the articles of association of the Company for the time being in-force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of their allotment and issue, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue.

Unless the context otherwise requires, references to “Shares” in the Share Option Scheme include references to shares in the Company of any such nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

(17) Reorganisation of capital structure of the Company

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of the Company as fair and reasonable will be made in the subject matter of the option so far as unexercised the subscription price and/or the method of the exercise of the option, provided that no such alteration shall be made so that a Share would be issued at less than its nominal value or which would give a grantee a different proportion of the issued share capital of the Company as that to which he was previously entitled and no alteration shall be made if any alteration in the capital structure of the Company is the result of an issue of Shares in the capital of the Company as consideration in a transaction.

(18) Cancellation of options granted

Any cancellation of options granted but not exercised must be approved by the Shareholders (and also by shareholders of any holding company which is listed on GEM and/or the main board of the Stock Exchange) in general meeting, with participants and their associates abstaining from voting. Any vote taken at the meeting to approve such cancellation must be taken by poll.

(19) Alteration of the Share Option Scheme

The provisions of the Share Option Scheme may be altered in any respect by resolution of the Board except that the definitions of “Associates”, “Employees”, “Grantee”, “Option Period” in sub-paragraph 1.1 thereof and the provisions of sub-paragraphs 4.1, 4.2, 4.3 and 4.4 and paragraphs 3, 5, 6, 7, 8, 9, 12, 13 and 14 thereof cannot be altered to the advantage of the grantees or prospective grantees without the prior approval of the Shareholders in general meeting.

Any alteration to the terms and conditions of the Share Option Scheme, which are of a material nature, must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(20) As at the Latest Practicable Date, options to subscribe for an aggregate of 18,000,000 Shares, representing approximately 2.44% of the total issued share capital of the Company immediately after the Introduction, at an exercise price of HK\$2.625 per Share, have been granted by the Company under the Share Option Scheme. 50% of the options granted may be exercised between the period from 1 August 2002 and 30 January 2004 and thereafter, the options granted may be exercised at any time up until 31 January 2012. Particulars of these options granted to the grantees under the Share Option Scheme are set out below:

Name of grantee	Address	Number of Shares subject to the options	Approximate percentage of issued share capital immediately after the Introduction
Executive Directors			
1. Yang Yu	Room 601, Unit 2, Block 11 6 Guandao Bureau Xin Liu District Langfang City Hebei Province The PRC	2,400,000	0.33%
2. Zhao Jinfeng	Room 302, Unit 4, Block 2 Jinhua Lane Langfang City Hebei Province The PRC	1,500,000	0.20%
3. Qiao Limin	Room 501, Unit 4 2 Jinhua Lane Chaoyang Small District Langfang City Hebei Province The PRC	1,500,000	0.20%

Name of grantee	Address	Number of Shares subject to the options	Approximate percentage of issued share capital immediately after the Introduction
4. Jin Yongsheng	Room 502, Unit 1, Block 1 Jincheng Lane Langfang City Hebei Province The PRC	1,500,000	0.20%
5. Yu Jianchao	15C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	1,500,000	0.20%
6. Cheung Yip Sang (also known as Zhang Yesheng)	Flat B, 37th Floor Block 8 Park Avenue Mongkok Kowloon Hong Kong	1,500,000	0.20%
Senior management			
7. Chen Jiacheng	1203C, Block 9 Kongzhong Garden Small District Langfang City Hebei Province The PRC	1,700,000	0.23%
8. Jiang Yongxing	5-601, Block 5, District 9 Guangdao Bureau Langfang City Hebei Province The PRC	500,000	0.07%
9. Ju Xilin	2-502, Block 1 Jincheng Lane Small District Langfang City Hebei Province The PRC	700,000	0.09%
10. Han Jishen	1103C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	700,000	0.09%

Name of grantee	Address	Number of Shares subject to the options	Approximate percentage of issued share capital immediately after the Introduction
Employees			
11. Zhang Yuanding	Room 502, No. 31 Lane 258 Tiandeng Road Shanghai City The PRC	700,000	0.09%
12. Kang Xiaolong	2-602, Block 1 Jincheng Lane Small District Langfang City Hebei Province The PRC	700,000	0.09%
13. Jia Jiangang	1303C, Block 9 Kongzhong Garden Langfang City Hebei Province The PRC	700,000	0.09%
14. Hou Liming	1-601, Block 1 Kongzhong Garden Small District Langfang City Hebei Province The PRC	700,000	0.09%
15. Liu Jie	1-402, No. 43 Kangzhuang Small District Langfang City Hebei Province The PRC	700,000	0.09%
16. Liang Zhiwei	1404D, Block 9 Kongzhong Garden Small District Langfang City Hebei Province The PRC	500,000	0.07%
17. Ge Yuliang	1203C, Block 8 Kongzhong Garden Small District Langfang City Hebei Province The PRC	500,000	0.07%
Total		18,000,000	2.44%

(21) Value of the option granted

As at the Latest Practicable Date, options to subscribe for an aggregate of 18,000,000 Shares have been granted under the Share Option Scheme. No valuation of the options granted have been performed by the Company as the Directors consider it inappropriate to value the options as a number of factors critical for the valuation (such as volatility of the Shares, risk-free rate and length of the options) cannot be determined accurately. Any valuation of the options granted based on various speculative assumptions would be meaningless and misleading to the Shareholders. Therefore, the Directors believe that the cost for disclosing the value of options granted does not justify for the benefit it provides for the Shareholders.

VI. SUMMARY OF TERMS OF PROPOSED SHARE OPTION SCHEME

The following is a summary of the principal terms of the rules of the Proposed Share Option Scheme proposed to be adopted at the Extraordinary General Meeting in replacement of the Share Option Scheme. The Proposed Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options which may be granted under the Proposed Share Option Scheme.

(1) Purpose

The purpose of the Proposed Share Option Scheme is for the Company to attract, retain and motivate talented participants to strive for future developments and expansion of the Group. The Proposed Share Option Scheme shall be an incentive to encourage the participants to perform their best in achieving the goals of the Group and allow the participants to enjoy the results of the Company attained through their efforts and contributions.

(2) Conditions

The Proposed Share Option Scheme is conditional upon (i) the approval of the Shareholders for the termination of the Share Option Scheme; (ii) the approval of the Shareholders for the adoption of the Proposed Share Option Scheme; and (iii) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, any Shares to be issued pursuant to the exercise of options which may be granted under the Proposed Share Option Scheme.

(3) Who may join

The Directors may, invite any employee or director of any member of the Group, or any employee, partner or director of any business consultant, joint venture partner, financial adviser and legal adviser of and to any member of the Group, as absolutely determined by the Board to take up options to subscribe for Shares at a price calculated in accordance with paragraph (7) below.

In determining the basis of eligibility of each participant, the Directors would mainly take into account of the experience of the participant on the Group's business, the length of service of the participant with the Group (if the participant is an employee or a director of any member of the Group), the length of business relationship the participant has established with the Group (if the participant is an employee, a partner or a director of any business consultant, joint venture partner, financial adviser and legal adviser of and to any member of the Group), the amount of support,

assistance, guidance, advice, efforts and contributions the participant has exerted and given towards the success of the Group and/or the amount of potential support, assistance, guidance, advice, efforts and contributions the participant is likely to be able to give or make towards the success of the Group in the future.

An option to subscribe Shares may be accepted by a participant within 28 days from the date of the offer of grant of the option and HK\$1.00 is payable by the participant to the Company on acceptance of the option offer.

(4) Duration and termination of the Proposed Share Option Scheme

Unless the Proposed Share Option Scheme is terminated by resolution of the Shareholders in general meeting or by the Board, the Proposed Share Option Scheme shall remain in force for a period of 10 years commencing on its adoption date, after which period no further options will be issued but in all other respects the provisions of the Proposed Share Option Scheme shall remain in full force and effect and options which are granted during the life of the Proposed Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(5) Grant of options

Subject to the terms of the Proposed Share Option Scheme, the Board shall be entitled at any time during the lifetime of the Proposed Share Option Scheme to make an offer to any participant as the Board may in its absolute discretion select to subscribe for such number of Shares as the Board may determine at the subscription price calculated in accordance with paragraph (7) below. Subject to the provisions of the Proposed Share Option Scheme and the Listing Rules, the Board may, when making an offer, impose any conditions, restrictions or limitations in relation thereto as it may at its absolute discretion think fit.

(6) Restriction on grant of option

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published in the newspapers. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of the Board (as such date is first notified by the Company to the Stock Exchange in accordance with its listing agreement) for the approval of the Company's interim or annual results; and (ii) the deadline for the Company to publish its interim or annual results announcement under its listing agreement, and ending on the date of the results announcement, no option may be granted.

(7) Subscription price of Shares

The subscription price for Shares under the Proposed Share Option Scheme shall be a price determined by the Board and notified to each grantee and will be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of an option, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of an option; and (iii) the nominal value of a Share.

(8) Exercise of options

An option is personal to the grantee and may not be transferred or assigned. An option may be exercised in accordance with the terms of the Proposed Share Option Scheme at any time during a period of not more than 10 years to be notified by the Board to each grantee which period of time shall commence on the date of grant of the option and expire on the last day of such period as determined by the Board.

(9) Minimum holding period and performance target

Generally, there is no minimum period for which an option must be held nor is there any performance target that must be achieved before an option can be exercised. However, the Directors may in the offer letter to be given by the Board to any particular participant under the Proposed Share Option Scheme stipulate that the options to be granted to this participant would be subject to such minimum holding period and/or this participant may have to achieve such performance target as may be stipulated in the offer letter before his options can be exercised.

(10) Rights on cease of employment, directorship, office or appointment

In the event of the grantee ceases to be a participant for any reason other than on his death or the termination of his employment, directorship, office or appointment on certain ground(s), the grantee may exercise the option up to his entitlement at the date of cessation (to the extent he is entitled to exercise at the date of cessation but not already exercised) within the period of three months following the date of such cessation, which date shall be the last actual working day with the relevant member(s) of the Group whether salary is paid in lieu of notice or not or the last date of office or appointment as partner or director of any business consultant, joint venture partner, financial/adviser to the relevant member(s) of the Group, as the case may be, or such longer period as the Board may determine, failing which the option will lapse.

(11) Rights on death

If a grantee of an option dies before exercising the option in full and none of certain events which would be a ground for termination of his employment, directorship, office or appointment arises, the personal representative(s) of the deceased grantee may exercise the option up to the entitlement of such grantee at the date of his death (to the extent but not already exercised) within a period of 12 months or such longer period as the Board may determine from the date of death, failing which the option will lapse.

(12) Rights on a general offer

If a general offer (including any take-over) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) with the terms of the offer having been approved in accordance with applicable laws and regulatory requirements becoming or are declared unconditional, the grantee (or the personal representative(s) of the deceased grantee) may by notice in writing to the Company exercise the option (to the extent which has become exercisable on the date of such notice and not already exercised) to its full extent or to the extent specified in such notice at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(13) Rights on a compromise or arrangement

If a compromise or arrangement between the Company and its Shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to the grantee on the same date as it despatches the notice which is sent to each Shareholder or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or the personal representative(s) of the deceased grantee) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of two months thereafter and the date on which such compromise or arrangement is sanctioned by the court exercise any of his options whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Proposed Share Option Scheme. The Company may require the grantee (or the personal representative(s) of the deceased grantee) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(14) Rights on voluntary winding up of the Company

If a notice is given by the Company to its Shareholders to convene a Shareholders' meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, the Company shall on the same date as or soon after it despatches such notice to convene the Shareholders' meeting, give notice thereof to all grantees and thereupon, each grantee (or the legal personal representative(s) of the deceased grantee) may by notice in writing to the Company (such notice shall be received by the Company not later than two business days prior to the proposed general meeting) exercise the option (to the extent which has become exercisable and not already exercised) either to its full extent or to the extent specified in such notice, such notice to be accompanied by a payment for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(15) Maximum number of Shares

- (i) The total number of Shares which may be issued upon exercise of all options to be granted under the Proposed Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 73,700,000 Shares, being 10% of the total number of Shares in issue as at the proposed date of approval of the Proposed Share Option Scheme, unless the Company obtains an approval from its Shareholders pursuant to sub-paragraph (ii) below. Options lapsed in accordance with the terms of the Proposed Share Option Scheme will not be counted for the purpose of calculating such 10% limit.
- (ii) The Company may seek approval by its Shareholders in general meeting for refreshing the 10% limit set out in sub-paragraph (i) above under the Proposed Share Option Scheme such that the total number of Shares which may be issued upon exercise of all options to be granted under the Proposed Share Option Scheme and any other share option schemes of the Company under the limit as refreshed must not exceed

10% of the total number of Shares in issue as at the date of approval to refresh such limit. Options previously granted under the Proposed Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Proposed Share Option Scheme or exercised options) will not be counted for the purpose of calculating the limit as refreshed.

- (iii) The Company may seek separate approval by its Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the limit are granted only to participants specially identified by the Company before such approval is sought.

Notwithstanding the above, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Proposed Share Option Scheme and any other share options scheme of the Company must not exceed 30% of the Shares in issue from time to time. No options may be granted under the Proposed Share Option Scheme and any other share option scheme of the Company if this will result in the limit being exceeded.

(16) Maximum entitlement to each participant

The total number of Shares issued and to be issued upon exercise of the options granted under the Proposed Share Option Scheme and any other share option scheme of the Company to each participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be subject to the issue of a circular to the Shareholders pursuant to Rule 17.03(4) of the Listing Rules and the Shareholders' approval in general meeting with such participant and his associates abstaining from voting. The number of Shares subject to the options to be granted and the terms of the options to be granted to such participant shall be fixed before Shareholders' approval and the date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(17) Grant of options to connected persons of the Company

- (i) Any grant of options to a participant who is a connected person, such as director, chief executive or substantial shareholder of the Company or their respective associates, must be approved by the independent non-executive Directors (excluding independent non-executive Director who is the grantee).
- (ii) Where the Board proposes to grant any option to a participant who is a substantial Shareholder (as defined in the Listing Rules) or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to him in the 12-month period up to and including the date of such grant:
 - (a) representing in aggregate more than 0.1% of the total number of Shares in issue; and
 - (b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000,

such proposed grant of options must be approved by the Shareholders in general meeting with all connected persons of the Company abstain from voting (except where any connected person may vote against the relevant resolution). In such a case, the Company shall send a circular to its Shareholders containing all those terms as required under the Listing Rules. Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

(18) Lapse of an option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the option period;
- (ii) the expiry of the periods referred to in paragraph (10), (11) or (12) above;
- (iii) subject to the scheme of arrangement for reconstruction or amalgamation becoming effective, the expiry of the period referred to in paragraph (13) above;
- (iv) the date on which the grantee ceases to be a participant by reason of the termination of his employment, directorship, office or appointment on grounds including, but not limited to, misconduct, bankruptcy, insolvency and conviction of certain criminal offence;
- (v) the date of the commencement of the winding-up of the Company;
- (vi) the date on which the grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to any option (or enters into any agreement so to do) in breach of the Proposed Share Option Scheme; or
- (vii) the date on which the Option is cancelled by the Board as provided in paragraph (21) below.

(19) Ranking of Shares

The Shares to be allotted and issued upon the exercise of an option will be subject to the articles of association of the Company for the time being in-force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of their allotment and issue, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue.

Unless the context otherwise requires, references to “Shares” in the Proposed Share Option Scheme include references to shares in the Company of any such nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

(20) Reorganisation of capital structure of the Company

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of a capitalisation issue, rights issue, sub-division or consolidation of Shares or reduction of capital, such corresponding alterations (if any) shall be made to:

- (i) the number of Shares subject to the option so far as unexercised; and/or
- (ii) the subscription price,

as the auditors of the Company shall at the request of the Board, certify in writing (other than any such adjustments made on a capitalisation issue), either generally or as regards any particular grantee, to be in their opinion fair and reasonable and that such alterations shall give a grantee the same proportion of the issued share capital of the Company as that to which he or she is previously entitled, but so that no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. The capacity of the auditors in this paragraph is that of experts and their certification shall be final and binding on the Company and the grantees.

(21) Cancellation of options granted

The Board may at any time at its absolute discretion cancel any option granted but not exercised. Where the Company cancels options and makes an offer of grant of new options to the same option holder, the offer of such new options may only be made, under the Proposed Share Option Scheme with available options (to the extent not yet granted and excluding the cancelled options) within the limit approved by the Shareholders pursuant to the Proposed Share Option Scheme.

(22) Alteration of the Proposed Share Option Scheme

The provisions of the Proposed Share Option Scheme may be altered in any respect by resolution of the Board except that the definitions of “Grantee”, “Option Period”, “Participant” in sub-paragraph 1.1 thereof, the provisions of sub-paragraphs 4.1, 5.1, 5.2, 5.3, paragraphs 6, 7, 8, 9, 10, 11 and 14 thereof and all such other matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of the participants without the prior approval of the Shareholders in general meeting.

Any alterations to the terms and conditions of the Proposed Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Proposed Share Option Scheme.

The amended terms of the Proposed Share Option Scheme or the options must still comply with the relevant requirements of Chapter 17 of the Listing Rules.

Any change to the authority of the Directors or scheme administrators in relation to any alteration to the terms of the Proposed Share Option Scheme must be approved by the Shareholders in general meeting.

(23) Explanation of the terms

The Directors consider that in order to encourage the participants to perform and contribute their best in achieving the goals of the Group and at the same time allow the participants to enjoy the results of the Company attained through their efforts and contributions, it is important that the Group should continue to provide such participants with an additional incentive by offering them an opportunity to obtain an ownership interest in the Company and to reward them for contributing to the long term success of the business of the Group. By offering options to the participants in such flexible terms under the Proposed Share Option Scheme, in particular, the subscription price of the options will be determined on a fair basis, such participants may exercise their options at anytime within the option period to acquire a monetary gain or ownership interest in the Company which may in turn provide a further incentive to the participants to better serve the Company. Further, by allowing the Company to grant options under the Proposed Share Option Scheme imposing such minimum holding period and/or requiring the participant to achieve such performance target as may be stipulated in the offer letter before his or her options can be exercised, the Company may be in a better position to retain such participants to continue serving the Group whilst at the same time providing these participants further incentive in achieving the goals of the Group.

Accordingly, the Directors propose to recommend to the Shareholders at the Extraordinary General Meeting to approve the adoption of the Proposed Share Option Scheme and simultaneously terminate the Share Option Scheme.

(24) Value of the option granted

Since the Proposed Share Option Scheme is yet to be approved by the Shareholders, the Board has not yet determined the time frame on the granting of the options thereunder and the number of Shares for which any grantee may subscribe upon exercise of an option. Accordingly, the Board considers that it is premature and inappropriate to state the value of the options for the time being in this document.

(25) Miscellaneous

The Company confirms that none of the Directors will be trustees of the Proposed Share Options Scheme and accordingly, none of the Directors will have any direct or indirect interest in such trustees.

VII. OTHER INFORMATION**(a) Estate duty, tax and property indemnities**

Each of Easywin, Mr. Wang and Ms. Zhao (the “Indemnifying Parties”) has pursuant to a deed of indemnity referred to as material contract (33) in the paragraph headed “Further information about the business – Summary of material contracts” in this Appendix, given indemnities in connection with, amongst other terms, (1) any liability for Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group on or before the date on which the placing under the Prospectus becomes unconditional; (2) any taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received on or before the date on which the placing under the Prospectus becomes unconditional, other than

any taxation chargeable in respect of profits or gains made in the ordinary course of business of members of the Group after 31 December 2000; (3) certain properties in the valuation report as set out in Appendix III to the Prospectus.

Each of the Indemnifying Parties will, however, not be liable under the deed of indemnity for taxation where (1) provision or allowance has been made for such taxation in the audited combined accounts of the Company or the audited accounts of any member of the Group for the three years ended 31 December 2000 (the “Accounts”); (2) the taxation arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date of the deed of indemnity; (3) the taxation or liability would not have arisen but for any act, transaction, omission or delay by any member of the Group voluntarily effected after the date of the deed of indemnity (other than pursuant to a legally binding commitment created on or before the date of indemnity) without the prior consent of the Indemnifying Parties; and (4) provision or reserve made for such taxation in the Accounts is established to be an over-provision or an excessive reserve.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in the Cayman Islands, the British Virgin Islands or the PRC, being jurisdictions in which one or more of the companies comprising the Group are incorporated.

(b) Litigation

As at the Latest Practicable Date, no member of the Group are engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

(c) Address for service of process and notices

Ms. Lam Hiu Ha has been nominated as the agent to accept service of process and notices of the Company. The address for service of process and notices is Room 4202, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

(d) Sponsor

Rothschild, together with the Company, has made an application to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any options which were granted under the Share Option Scheme and which may be granted under the Proposed Share Option Scheme on the Main Board.

(e) Expenses

The estimated expenses of the Company in relation to the Introduction are approximately HK\$7.4 million and are payable by the Company.

(f) Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

Name	Qualification
Chesterton Petty Limited	Professional surveyors and valuers
Commerce & Finance Law Offices	PRC legal adviser
Deloitte Touche Tohmatsu	Certified Public Accountants
Maples and Calder Asia	Cayman Islands attorneys-at-law
Rothschild	Registered investment adviser

(g) Consents of experts

Each of Chesterton Petty Limited, Commerce & Finance Law Offices, Deloitte Touche Tohmatsu, Maples and Calder Asia and Rothschild has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

(h) Related party transactions

The Group entered into the related party transactions within the two years immediately preceding the date of this document as set out in Note 35 of the section headed “Notes to the financial information” in the accountants’ report as set out in Appendix I to this document and the paragraph headed “The Group’s business – Connected transactions” in this document.

(i) Miscellaneous

- (1) Save as disclosed in this document:
 - (i) within the two years preceding the date of this document, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries; and
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (2) The Company has no founders, management or deferred shares.
- (3) Necessary arrangements have been made with HKSCC for the Shares to continue to be accepted as eligible securities of CCASS.
- (4) No major change in the nature of the business of the Group is being contemplated by the Directors following the listing of the Shares on the Main Board.

VIII. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Woo Kwan Lee & Lo, 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum;
- (b) the existing articles of association of the Company;
- (c) the Articles of Association proposed to be adopted at the Extraordinary General Meeting;
- (d) the accountants' reports prepared by Deloitte Touche Tohmatsu, the texts of which are set out in Appendix I to this document;
- (e) the annual report of the Company for the financial year ended 31 December 2001;
- (f) the letters, summaries of valuation and valuation certificates relating to the property interests of the Group prepared by Chesterton Petty Limited, the texts of which are set out in Appendix II to this document;
- (g) the letter prepared by Maples and Calder Asia referred to in Appendix III to this document summarising, certain aspects of Cayman Islands company law;
- (h) the Companies Law;
- (i) the rules of the Proposed Share Option Scheme;
- (j) the material contracts referred to in the paragraph headed "Further information about the business – Summary of material contracts" in this Appendix, together with the service agreements with the executive Directors referred to in the paragraph headed "Further information about Directors, Senior Management and Staff – Directors – Particulars of service agreements" in this Appendix; and
- (k) the written consents referred to in the paragraph headed "Other information – Consents of experts" in this Appendix.