

FINANCIAL INFORMATION

TRADING RECORD

The following table summarises the Group's combined results for the three financial years ended 31 December 2000 and is prepared on the basis that the Group's equity interest in Langfang Xinao contributed by the Founders had been in existence since 1 January 1998 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 prospectus.

	1998 <i>RMB'000</i>	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>
Turnover			
Connection fees	31,941	38,508	101,282
Gas usage charges	9,045	14,342	20,517
Sale of gas appliances	123	73	471
	41,109	52,923	122,270
Cost of sales	(18,327)	(23,492)	(58,362)
Gross profit	22,782	29,431	63,908
Other revenues	324	793	945
Tax refund	–	2,656	5,180
Selling expenses	(222)	(273)	(2,041)
Administrative expenses	(3,449)	(3,690)	(9,153)
Other operating expenses	(656)	(45)	(357)
	18,779	28,872	58,482
Interest expense	(2,957)	(3,300)	(8,112)
Profit before taxation	15,822	25,572	50,370
Taxation	(2,373)	(3,836)	(6,976)
Profit before minority interests	13,449	21,736	43,394
Minority interests	(4,117)	(6,653)	(6,018)
Profit for the year	9,332	15,083	37,376
Dividends	–	–	30,529
Earnings per Share (RMB) (<i>Note</i>)	2.2 cents	3.6 cents	8.9 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 year presented.

During the Track Record Period, the Group's results were substantially attributable to Langfang Xinao. For each of the two 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. For the financial

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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.

Connection fees represented the Group's major source of revenue during the Track Record Period, followed by gas usage charges and sale of gas appliances. The Group maintained a stable gross profit margin during the Track Record Period of between approximately 52.3% to 55.6%. Cost of sales was the Group's major expense accounting for approximately 44.4% to 47.7% of its turnover during the Track Record Period. For the three financial years ended 31 December 2000, the Group recorded net profit margins of approximately 22.7%, 28.5% and 30.6% respectively. The higher net profit margin achieved in 1999 was due to improved operating performance and refund of sales tax of approximately RMB2.7 million under PRC tax legislations. Pursuant to tax incentives granted by the local government, the Group received an income tax refund of approximately RMB5.2 million in January 2001 for taxes paid for the two financial years ended 31 December 1999. The Group's net profit margin for 2000 increased compared to 1999 primarily because the Group's interest in Langfang Xinao has increased from approximately 69% to 95% in 2000.

Turnover

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

	1998		1999		2000	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Connection fees	31,941	77.7	38,508	72.8	101,282	82.8
Gas usage charges	9,045	22.0	14,342	27.1	20,517	16.8
Sales of gas appliances	123	0.3	73	0.1	471	0.4
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>41,109</u>	<u>100.0</u>	<u>52,923</u>	<u>100.0</u>	<u>122,270</u>	<u>100.0</u>

Connection fees represent the Group's major source of revenue during the Track Record Period. The Group experienced particularly strong growth for the financial year ended 31 December 2000, as a result of both strong growth in new connections for Langfang Xinao and contributions from Liaocheng Xinao, Beijing Xinao and Huludao Xinao for the period between their respective dates of acquisition and 31 December 2000.

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 January to March), 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 Existing Project Companies for the Track Record Period:

	1998 <i>RMB'000</i>	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>
Langfang Xinao	31,941	38,508	79,161
Liaocheng Xinao	–	–	6,939
Beijing Xinao	–	–	4,308
Huludao Xinao	–	–	10,874
	31,941	38,508	101,282
Total	31,941	38,508	101,282

Residential customers represent the major contributor to the Group's connection fees, accounting for approximately 82.8% to 87.5% during the Track Record Period.

As Liaocheng Xinao, Beijing Xinao and Huludao Xinao are still in their early stages of operation and were only acquired by the Company in July or August 2000, the amount of connection fees contributed by these companies to the Group for the period between their respective dates of acquisition and 31 December 2000 were substantially lower than that of Langfang Xinao. The Directors expect the contribution to connection fees from these companies to account for a significant percentage of the Group's operating results as full year's results from operations are taken into account in the future.

Gas usage charges

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

	1998 <i>RMB'000</i>	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>
Langfang Xinao	9,045	14,342	17,961
Liaocheng Xinao	–	–	786
Beijing Xinao	–	–	162
Huludao Xinao	–	–	1,608
	9,045	14,342	20,517
Total	9,045	14,342	20,517

For the Track Record Period, approximately 69.2% 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.

	1998 <i>RMB'000</i>	1999 <i>RMB'000</i>	2000 <i>RMB'000</i>
Turnover	41,109	52,923	122,270
<i>Less: Cost of sales</i>	<u>(18,327)</u>	<u>(23,492)</u>	<u>(58,362)</u>
Gross profit	<u><u>22,782</u></u>	<u><u>29,431</u></u>	<u><u>63,908</u></u>
Gross profit margin (%)	55.4%	55.6%	52.3%

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.

Year ended 31 December 1998

For the financial year ended 31 December 1998, the Group recorded a turnover of approximately RMB41.1 million, which were all derived from Langfang Xinao. Connection fees of approximately RMB31.9 million (representing approximately 77.7% of the Group's turnover) were derived from 6,209 new households and 27 new commercial and industrial customers. Approximately 22.0% of turnover was represented by gas usage charges, derived from the supply of a total of approximately 2.12 million cubic metres of gas to residential customers and the supply of approximately 5.79 million cubic metres of gas to commercial and industrial customers. The remaining approximately 0.3% of turnover was derived from sale of gas appliances.

As at 31 December 1998, the Group had made gas connections to a total of 22,823 households and 131 commercial and industrial sites.

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 RMB18.3 million. Gross profit amounted to approximately RMB22.8 million, or a gross profit margin of approximately 55.4%.

Administrative expenses amounted to approximately RMB3.4 million, or approximately 8.4% of turnover. The administrative expenses for the year are comprised of salaries, staff benefits, depreciation and amortisation, travelling, insurance, office expenses and utilities. Interest expenses totalled approximately RMB3.0 million for the year and represent primarily interest expenses paid on two Renminbi-denominated loans from the Agricultural Bank of China and the Industrial and Commercial Bank of China and a US-dollar denominated loan from Nanyang Commercial Bank. These loans were utilised by Langfang Xinao as working capital and for capital expenditures. During the year, the Group incurred other operating expenses of approximately RMB656,000, which were primarily comprised of loss on disposal of fixed assets. The remaining amounts were made up of bank charges and foreign exchange losses.

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The Group recorded a profit before minority interests of approximately RMB13.4 million. Net profit attributable to Shareholders was approximately RMB9.3 million, and net profit margin was approximately 22.7%.

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, representing a growth of approximately 28.7% over the previous year. Such growth was fueled by both an increase in connection fees from expansion in the customer base and an increase in gas usage charges due to higher gas consumption by its customers. The Group also 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, an increase of approximately 20.6% over the previous year. 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.

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, representing a growth of approximately 58.6% over the previous year. Gas usage charges represented approximately 27.1% of total turnover. The strong growth in gas usage charges came primarily from growth in commercial and industrial users which are large consumers of gas. 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, representing an increase of approximately 29.2% over the previous year. The gross profit margin remained stable at approximately 55.6% when compared with that of 1998.

During the year, the Group's other revenues increased from approximately RMB324,000 in 1998 to approximately RMB793,000 in 1999. This is primarily due to an increase in pipeline transportation fees and project income. The Group charges oil and gas exploration and production companies a pipeline transportation fee for the transmission of gas from gas fields to their affiliated companies via the Group's pipelines. Project income is derived from revenue received by the Group from customers for additional miscellaneous construction work associated with the construction of pipelines, which are normally non-recurrent and small-scale in nature.

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Administrative expenses incurred for the year increased slightly to approximately RMB3.7 million. When expressed as a percentage of turnover, administrative expenses decreased from approximately 8.4% in 1998 to approximately 7.0% in 1999. Interest expenses also increased slightly from approximately RMB3.0 million in 1998 to approximately RMB3.3 million in 1999, as a result of an increase in bank loans for the purpose of financing asset acquisitions. 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 an increase of approximately 61.6% over the previous year and representing a net profit margin of approximately 28.5% or approximately 23.5% if the one-off sales tax refund is excluded. The substantial growth in net profit attributable to Shareholders was primarily due to improvement in operating performance resulting from increases of approximately 34.1% in the number of gas connections and approximately 48.9% in the volume of gas supplied as well as the receipt of a sales tax refund.

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. These companies made only a small contribution to the Group's results as they are still in their initial stages of operations and approximately five months' results of these Project Companies 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 economics 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. 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 revenues 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, 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

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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 interest expenses 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.

For the financial year ended 31 December 2000, Langfang Xinao remained the main contributor to the Group's results. During this period, 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. Interest expense was 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 refund of income tax paid in prior years of approximately RMB5.2 million, attributable to tax incentives granted by the local government.

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 January 2000. 90% of the equity interest in Liaocheng Xinao was acquired from XGCL by the Group 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.

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. 80% of the equity interest in Beijing Xinao was acquired from XGCL by the Group 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. 90% of the equity interest in Huludao Xinao was acquired from XGCL by the Group 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.

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The table below sets out the unaudited financial results of each of Liaocheng Xinao, Beijing Xinao and Huludao Xinao for the financial year ended 31 December 2000, as extracted from the individual management accounts of Liaocheng Xinao, Beijing Xinao and Huludao Xinao:

	Liaocheng Xinao <i>(RMB'000)</i>	Beijing Xinao <i>(RMB'000)</i>	Huludao Xinao <i>(RMB'000)</i>
Turnover	12,887	9,107	18,440
Gross profit	7,231	5,199	6,719
Profit for the year	5,227	3,119	1,905

Taxation

In accordance with the relevant tax legislations and rules in the PRC, Sino-foreign joint ventures are liable to pay income tax on net profits at the rate of 30%. Depending on the nature of the joint venture's business, it 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 Existing Project Companies 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 will pay 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 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%.

INDEBTEDNESS

Borrowings

As at the close of business on 28 February 2001, being the latest practicable date for the purpose of preparing the indebtedness statement prior to the printing of this prospectus, the Enlarged Group had outstanding bank borrowings of approximately RMB122,149,000 which are repayable within one year, approximately RMB20,235,000 which are repayable between one to two years and approximately RMB722,000 which are repayable between two and five years. The bank borrowings comprised of secured bank loans of approximately RMB52,146,000 and unsecured bank loans of approximately RMB90,960,000.

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As at 28 February 2001, the Enlarged Group had amounts due to related companies amounting to RMB9,321,000, which were unsecured and interest free. Other than the amounts due to the minority shareholders of the Company's subsidiaries and of the Acquisition Companies, the remaining balances were fully repaid subsequent to 28 February 2001.

As at 28 February 2001, the Enlarged Group had an amount due to ultimate holding company amounting to approximately RMB81,374,000, which was unsecured, interest free and fully capitalised subsequent to 28 February 2001. Details of the capitalisation are set out in the paragraph headed "Corporate reorganisation" in Appendix V to this prospectus.

Securities and guarantees

As at 28 February 2001, the Enlarged Group's banking facilities were secured by the following:

- (i) the Group's property, plant and equipment with a net book value of approximately RMB132,614,000;
- (ii) assets owned by related companies; and
- (iii) guarantees provided by related companies.

Contingent liabilities

As at 28 February 2001, the Enlarged Group had no material contingent liabilities.

Release of related companies from securities and guarantees

The Group has been in the process of negotiation with its bankers to release the securities and guarantees provided by the related companies following the listing of Shares on GEM. As at 28 February 2001, the relevant banks which granted the banking facilities secured by the assets owned and guarantees provided by the related companies had agreed in principle that such securities would be released upon, amongst other terms, the listing of Shares on GEM and the replacement of such securities by corporate guarantees provided by the Company or in the case of Langfang Xinao, the guarantee provided to Langfang Xinao by a related company will be released by the bank and replaced by corporate guarantees from its respective shareholders in proportion to their ownership. Save as aforesaid, the relevant banks of the Group have not indicated any other changes in the amounts and terms of the relevant facilities as a result of such release.

Disclaimers

As at 28 February 2001, save as aforesaid or otherwise disclosed in this prospectus, and apart from intra-group liabilities, the Enlarged 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;
- (iii) any mortgage or charge; or
- (iv) any material contingent liabilities or guarantees.

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The Directors have confirmed that, save as disclosed above, there has not been any material change in the indebtedness, commitments or contingent liabilities of the companies comprising the Enlarged Group since 28 February 2001.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM 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 rules 17.15 to 17.21 of the GEM Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current liabilities

As at 28 February 2001, the Group had net current liabilities of approximately RMB156,916,000. The current assets comprised bank balances and cash of approximately RMB13,696,000, inventories of approximately RMB17,937,000, trade and other receivables of approximately RMB32,057,000, amounts due from customers for contract work of approximately RMB18,586,000, amount due from ultimate holding company of approximately RMB5,150,000 and amounts due from related companies of approximately RMB46,842,000. The current liabilities comprised trade and other payables of approximately RMB57,951,000, amounts due to customers for contract work of approximately RMB16,680,000, amounts due to related companies of approximately RMB6,808,000, amounts due to ultimate holding company of approximately RMB81,374,000, taxes payable of approximately RMB6,247,000 and current portion of bank loans of approximately RMB122,124,000.

Borrowings and banking facilities

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

As at 28 February 2001, the Group had available aggregate banking facilities of approximately RMB163,040,000 of which approximately RMB143,040,000 was utilised. Of the utilised facilities, approximately RMB122,124,000 are repayable within one year, approximately RMB20,211,000 are repayable within one to two years and approximately RMB705,000 are repayable within two to five years.

As at 28 February 2001, the Group's banking facilities were secured by the Group's property, plant and equipment and assets owned and guarantees provided by related companies.

As at 28 February 2001, the Group had amounts due to related companies amounting to RMB6,808,000, which were unsecured and interest free. Other than the amounts due to the minority shareholders of the Company's subsidiaries and the amounts due to the Acquisition Companies, the remaining balances were fully settled subsequent to 28 February 2001.

As at 28 February 2001, the Group had an amount due to ultimate holding company amounting to approximately RMB81,374,000, which was unsecured, interest free and fully capitalised subsequent to 28 February 2001. Details of the capitalisation are set out in the paragraph headed "Corporate reorganisation" in Appendix V to the prospectus.

The short term debts of the Group were in the form of bank loans. The Group also had long term debts in the form of bank loans.

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Capital commitments

As at 28 February 2001, the Group had capital commitments of RMB3,308,000 in respect of property, plant and equipment which are contracted for but not provided in the financial information.

In addition, the Group has entered into Acquisition Agreements with XGCL in relation to the acquisition of XGCL's entire interests in the registered capital of Jinggu Xinao, Qingdao Xinao and Jingchang Xinao at consideration equal to the investment by XGCL in these Acquisition Companies at the date of completion. As at 28 February 2001, the aggregate amount of investment by XGCL was RMB32,850,000. Part of the proceeds raised through the Placing will be applied to the acquisition of the Acquisition Companies. It is expected that the acquisitions will be completed shortly after listing of Shares on GEM.

Save as disclosed above, there are no capital commitments as at 28 February 2001.

Directors' opinion of the working capital

The Directors are of the opinion that, taking into consideration the financial resources and banking facilities available to the Group including its internally generated funds and the estimated net proceeds of the Placing, the Enlarged 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 2000 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 2001, the Company leased office premises at Room 4202, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong, with a gross floor area of 33.5 m² from an independent third party for a term of three years from 1 January 2001 to 31 December 2003.

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The PRC

As at 31 January 2001, the Group owned interests in the following properties:

- land and two buildings located in Langfang, Hebei Province with total gross floor area of approximately 14,973.8 m²;
- two residential buildings located in Langfang, Hebei Province used as staff quarters with a total gross floor area of approximately 3,391.1 m²;
- five processing stations located in Langfang, Hebei Province; Huludao, Liaoning Province with a total site area and a gross floor area of approximately 87,692.9 m² and 7,847.3 m², respectively;
- 13 residential units in Huludao, Liaoning Province used as staff quarters with a total gross floor area of approximately 1,238.9 m²;
- land above gas pipelines located in Langfang, Hebei Province with a total area of approximately 15,960.9 m²; and
- a parcel of land located in Langfang, Hebei Province with a total area of 10,869.3 m².

In addition, as at 31 January 2001, the Group owns interests in three processing stations under construction located in Liaocheng, Shandong Province; and Miyun County, Beijing Municipality in the PRC, with a total site area of 45,941.1 m² and a total gross floor area of approximately 2,899.0 m² on completion of construction.

As at 31 January 2001, the Group leased the following properties:

- sales and commercial offices in Langfang, Hebei Province with a total gross floor area of approximately 384.4 m²;
- buildings for storage proposes in Langfang, Hebei Province with a total gross floor area of approximately 8,250.0 m²;
- sales and commercial offices in Liaocheng, Shandong Province with a total gross floor area of approximately 996.0 m²;
- sales and commercial offices in Miyun County, Beijing Municipality with a total gross floor area of approximately 445.0 m²;
- residential units in Miyun County, Beijing Municipality with a total gross floor area of approximately 387.8 m²; and
- sales and commercial offices in Huludao, Liaoning Province with a total gross floor area of approximately 218.0 m².

The property interests attributable to the Group have been valued at HK\$98.8 million as at 31 January 2001 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 Appendix III to this prospectus.

FINANCIAL INFORMATION

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 RMB30.6 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 2000, there were no reserves available for distribution to the Shareholders.

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 ("PRC GAAP"). These profits differ from those that are reflected in the accountants' report set out in Appendix I to this prospectus, which are prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP").

Upon listing of the Shares on GEM, it is the Directors' current intention to distribute dividends based on the lower of the Group's profit determined under PRC GAAP and HK GAAP.

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 2000 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, adjusted as follows:

	<i>RMB'000</i>	<i>HK\$'000</i>
Audited combined net tangible assets of the Group as at 31 December 2000	69,830	65,877
Profit after taxation and minority interests for the period from 1 January 2001 to 31 March 2001 based on the Group's unaudited management accounts	4,310	4,066
Surplus arising on revaluation of the Group's property interests as at 31 January 2001 (<i>Note 1</i>)	12,044	11,362
Capitalisation of amount due to ultimate holding company (<i>Note 2</i>)	81,374	76,768
Estimated net proceeds of the Placing (<i>Note 3</i>)	184,440	174,000
Consideration for the acquisition of equity interests in the Acquisition Companies	(32,850)	(30,991)
Net asset values of the Acquisition Companies as at 31 December 2000 shared by the Group (<i>Note 4</i>)	30,943	29,192
Adjusted net tangible assets	350,091	330,274
Adjusted net tangible asset value per Share (<i>Note 5</i>)	RMB0.58	HK\$0.55

Notes:

- (1) The Group's property interests were valued by Chesterton Petty Ltd., an independent valuer, as at 31 January 2001 as set out in "Property valuation" in Appendix III to this prospectus. 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 2001.
- (2) The amount due to Easywin, the ultimate holding company of the Group, was capitalised subsequent to 31 December 2000, details of which are set out in the paragraph headed "Corporate reorganisation" in Appendix V to this prospectus.
- (3) The estimated net proceeds from the Placing is based on the minimum Placing Price of HK\$1.15 per Share and does not take into account any Shares which may be issued pursuant to the Over-allotment Option. If the Over-allotment Option is exercised in full, the estimated net proceeds of the Placing will be approximately HK\$204 million.
- (4) This represents the aggregate amount of the net asset values of the Acquisition Companies as at 31 December 2000 shared by the Group based on the respective percentages of the equity interests of the Acquisition Companies to be acquired by the Group.
- (5) 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 600,000,000 Shares in issue immediately following the Placing and before the exercise of any Over-allotment Option.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 31 December 2000 (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.