

# THE POWER FROM **EXPANSION**

>06:30am



>12:41pm



>14:37pm



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

>17:20pm



>16:55pm

# THE POWER FROM PERFECTION

>09:52am



>12:30pm



>13:48pm



>16:15pm



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



**>18:25pm**



## CHAIRMAN'S STATEMENT

>09:37am

>15:22pm

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



&gt;23:37pm

WANG Yusuo  
Chairman

#### RESULTS OF THE YEAR

Building on its previous encouraging results, the Group continued to record a substantial growth. The turnover and profit for the year reached RMB878,055,000 and RMB183,090,000 respectively, representing increases of 61.3% and 43.1% over last year respectively. Earnings per share increased by 37.8% to RMB24.8 cents.

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



# CHAIRMAN'S STATEMENT

>06:11am

As at the end of 2003, the Group made natural gas connections to a total of 381,283 residential households and 782 commercial/industrial customers (connected to gas appliances of a total installed designed daily capacity of 532,793 m<sup>3</sup>), representing increases of 170,433 residential households and 280 commercial/industrial customers (with an increase of a total installed designed daily capacity of 167,680 m<sup>3</sup>) when compared to 2002. The sales volume of natural gas for the year also increased tremendously by 1.4 times. This fully demonstrates the benefits of economies of scale achieved by the Group by operating large scale projects, and it also shows customers' high acceptability of natural gas as a clean, efficient, safe and economical energy source.

## FINANCIAL POSITION

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

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

## INTERNATIONAL AWARDS

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

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

the "Best Small Cap Company (China)" by *AsiaMoney* for three consecutive years;  
the "Chinese Business 500" by *Yazhou Zhoukan* for three consecutive years;  
the "Top 20 Chinese Enterprises of Revenue Growth" by *Yazhou Zhoukan* for two consecutive years;  
the "Top 20 Chinese Enterprises of Assets Growth" by *Yazhou Zhoukan* for the first time; and  
the "Overall Best Managed Company (China)" by *AsiaMoney* again this year after getting this award in 2001.

The above awards, voted by international institutional investors and analysts, prove that Xinao Gas is highly regarded by the professional investment community for its outstanding and farseeing management, solid financial position and effective operating system, which enable the Group to maintain its leading position in the industry. The Group's management team will continue to devote all their efforts to maintain this hard-won achievement and to increase further the accomplishment, so as to create greater value for shareholders and the Company.

## CORPORATE MANAGEMENT

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

## CUSTOMER SERVICE

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



&gt;13:48pm

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

### HUMAN RESOURCES

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

### PROSPECTS

The use of natural gas, a clean and efficient energy source, is strongly promoted by the PRC government, and foreign investors are encouraged to invest in the downstream gas distribution market. At the end of 2002, the Ministry of Construction of the PRC issued a memorandum on the "Opinion concerning the speeding up of the development of market economy in the public utilities sector" requiring local authorities to open up the market for the construction and operation of public utilities, including city gas. Foreign investors are now allowed to take a majority stake in or completely own such projects. Therefore, the Group believes that with the liberalisation of the city gas market, city piped natural gas in the PRC will have even faster and healthier development.

&gt;19:51pm

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

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

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

**WANG Yusuo**

*Chairman*

20 April 2004