

Notes to the Financial Statements

For the year ended 31 December 2003

1. GENERAL

The Company is an exempt company incorporated in the Cayman Islands under the Companies Law and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Easywin Enterprises Limited ("Easywin"), a limited company incorporated in the British Virgin Islands.

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA.

SSAP 12 (Revised) Income Taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this standard has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required. Details of the revised accounting policy are set out in note 3.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

Goodwill

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Goodwill (Cont'd)

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

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

Negative goodwill

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

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

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

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

Revenue recognition

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

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

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

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

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

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For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property, plant and equipment

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

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

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

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

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

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

Construction in progress

Construction in progress represents assets under construction and is stated at cost. Cost comprises directly attributable 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Exclusive rights of operation

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

Investments in subsidiaries

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

Interest in associate

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

Jointly controlled entities

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

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

Investment in securities

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

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

Borrowing costs

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

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

Notes to the Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment

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

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

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.

Incentive subsidies

Incentive subsidies are recognised when relevant approval has been obtained.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Taxation

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

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

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

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

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

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

Operating leases

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

Foreign currencies

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

Retirement benefit scheme contribution

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

Notes to the Financial Statements

For the year ended 31 December 2003

4. TURNOVER

| | 2003 RMB'000 | 2002 RMB'000 |
|--------------------------------------------------|-----------------|-----------------|
| Turnover comprises the following: | | |
| Gas connection fees | 516,468 | 330,915 |
| Sales of piped gas | 185,720 | 73,588 |
| Distributions of bottled liquefied petroleum gas | 161,402 | 130,445 |
| Sales of gas appliances | 14,465 | 9,544 |
| | 878,055 | 544,492 |

5. OTHER OPERATING INCOME

| | 2003 RMB'000 | 2002 RMB'000 |
|----------------------------------------------------|-----------------|-----------------|
| Other operating income comprises the following: | | |
| Compensation received (<i>note a</i>) | 8,000 | – |
| Incentive subsidies (<i>note b</i>) | 7,356 | 5,208 |
| Interest income | 3,093 | 5,189 |
| Income from rented premises under operating leases | 2,011 | 1,805 |
| Repair and maintenance income | 1,267 | 812 |
| Management fee income | 264 | 264 |
| Pipeline transmission income | 1,168 | 423 |
| Release of negative goodwill | 226 | 96 |
| Gain on disposal of a subsidiary | 718 | – |
| Others | 6,631 | 3,594 |
| | 30,734 | 17,391 |

Notes:

- (a) Under a memorandum signed between the joint venture partners of 蚌埠新奥燃气有限公司 Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), a subsidiary of the Company, Bengbu Xinao is entitled to receive compensation from the PRC minority shareholder for the operating loss incurred in running the liquefied petroleum gas business due to the delay in obtaining the approval of the increment in selling price from the local government authority. During the year, compensation amounting to RMB8,000,000 was received from the PRC minority shareholder.

5. OTHER OPERATING INCOME (CONT'D)

- (b) Included in incentive subsidies is a refund of part of the income tax paid from the relevant PRC government authorities as an incentive for the investments in Langfang, the PRC, amounting to RMB4,098,000 (2002: RMB5,208,000 applied by Miyun Xinao Gas Company Limited, Langfang Xinao Gas Company Limited and Xinao Langfang Investment Limited, subsidiaries of the Company). The application was approved by the relevant government authorities. The remaining represented refunds of various taxes as incentives by the government authorities in various cities of the PRC. All incentives were recorded in the year when the approval was obtained.

6. PROFIT FROM OPERATIONS

| | 2003 RMB'000 | 2002 RMB'000 |
|--------------------------------------------------------------------------------|-----------------|-----------------|
| Profit from operations has been arrived at after charging: | | |
| Amortisation of intangible assets included in other operating expenses | 3,706 | 906 |
| Auditors' remuneration | 1,334 | 1,105 |
| Depreciation and amortisation of property, plant and equipment | 52,371 | 23,853 |
| Deficit on revaluation of property, plant and equipment | – | 113 |
| Loss on disposal of property, plant and equipment | 3,097 | 1,196 |
| Minimum lease payments under operating leases in respect of land and buildings | 3,769 | 1,914 |
| Allowance for bad and doubtful debts | 918 | 1,103 |
| Allowance for inventories | 1,260 | – |
| Research and development expenses | 2,889 | 1,678 |
| Staff costs | 87,506 | 47,246 |
| Less: Amount capitalised under construction in progress | (5,427) | (5,407) |
| | 82,079 | 41,839 |

Notes to the Financial Statements

For the year ended 31 December 2003

7. REMUNERATION OF DIRECTORS AND EMPLOYEES

| | 2003 RMB'000 | 2002 RMB'000 |
|------------------------------------------|-----------------|-----------------|
| Directors | | |
| Fees | 241 | 191 |
| Salaries and other benefits | 5,056 | 4,698 |
| Retirement benefits scheme contributions | 28 | 21 |
| | 5,325 | 4,910 |

The emoluments of the directors were within the following bands:

| | 2003 RMB'000 | 2002 RMB'000 |
|--------------------------------|-----------------|-----------------|
| Nil to HK\$1,000,000 | 11 | 10 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | 1 |

The amounts disclosed above include directors' fees of RMB179,000 (2002: RMB127,000) payable to independent non-executive directors. None of the directors waived any emoluments during the year.

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:

| | 2003 RMB'000 | 2002 RMB'000 |
|------------------------------------------|-----------------|-----------------|
| Salaries and other benefits | 3,741 | 3,542 |
| Retirement benefits scheme contributions | 32 | 21 |
| | 3,773 | 3,563 |

7. REMUNERATION OF DIRECTORS AND EMPLOYEES (CONT'D)

| | 2003 Number of individuals | 2002 Number of individuals |
|---------------------------------------------------------------------------------|----------------------------------|----------------------------------|
| Emoluments of the five highest paid individuals were within the following band: | | |
| Nil – HK\$1,000,000 | 4 | 4 |
| HK\$1,000,001 – HK\$1,500,000 | 1 | 1 |
| Number of directors | 4 | 5 |
| Number of employees | 1 | – |
| | 5 | 5 |

8. FINANCE COSTS

| | 2003 RMB'000 | 2002 RMB'000 |
|------------------------------------------|-----------------|-----------------|
| Interest on bank and other loans: | | |
| – wholly repayable within five years | 24,034 | 12,291 |
| – not wholly repayable within five years | – | 1,560 |
| Bank charges | 24,034 6,961 | 13,851 2,931 |
| | 30,995 | 16,782 |

No interest was capitalised during the year.

Notes to the Financial Statements

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9. INCOME TAX EXPENSES

| | 2003 RMB'000 | 2002 RMB'000 |
|------------------------------|-----------------|-----------------|
| Current tax | 4,633 | 12,324 |
| Overprovision in prior years | (1,676) | – |
| | 2,957 | 12,324 |

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

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

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

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

| | 2003 RMB'000 | 2002 RMB'000 |
|-------------------------------------------------------|-----------------|-----------------|
| Profit before taxation | 199,242 | 156,058 |
| Tax at the domestic income tax rate of 33% | 65,750 | 51,499 |
| Tax effect of expenses not deductible for tax purpose | 25,707 | 11,268 |
| Tax effect of income not taxable for tax purpose | (6,312) | (2,386) |
| Tax effect of tax losses not recognised | 10,477 | 571 |
| Utilisation of tax losses previously not recognised | (209) | (44) |
| Overprovision in respect of prior year | (1,676) | – |
| Effect of tax concession granted to PRC subsidiaries | (82,018) | (36,682) |
| Effect of different tax rates of subsidiaries | (8,762) | (11,902) |
| Tax effect for the year | 2,957 | 12,324 |

10. DIVIDENDS

No dividend has been paid or declared by the Company during the year (2002: nil).

11. EARNINGS PER SHARE

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

| | 2003 RMB'000 | 2002 RMB'000 |
|-------------------------------------------------------------------|-----------------|-----------------|
| Earnings for the purposes of basic and diluted earnings per share | 183,090 | 127,916 |

| | 2003 Number of shares | 2002 Number of shares |
|------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 737,000,000 | 711,986,301 |
| Effect of dilutive potential ordinary shares – share options | 8,075,000 | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 745,075,000 | 711,986,301 |

No diluted earnings per share for 2002 is presented as the exercise price of share options outstanding during 2002 was higher than the average market price of the Company's shares.

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12. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings RMB'000 | Pipelines RMB'000 | Machinery and equipment RMB'000 | Motor vehicles RMB'000 | Office equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|-------------------------------------------|----------------------------------|----------------------|------------------------------------------|------------------------------|--------------------------------|----------------------------------------|------------------|
| THE GROUP | | | | | | | |
| COST / VALUATION | | | | | | | |
| At 1 January 2003 | 257,250 | 476,168 | 41,760 | 39,552 | 10,328 | 126,701 | 951,759 |
| Acquisition of subsidiaries | 8,554 | 41,610 | 5,789 | 880 | 346 | 15,236 | 72,415 |
| Additions | 127,475 | 328,227 | 33,479 | 21,868 | 12,875 | 559,136 | 1,083,060 |
| Reclassification | 37,804 | 198,115 | 17,666 | 839 | 481 | (254,905) | – |
| Disposals | (1,938) | (366) | (533) | (2,557) | (189) | – | (5,583) |
| Disposal of a subsidiary | (530) | (572) | (97) | (251) | (249) | (1,306) | (3,005) |
| Net surplus on valuation | 16,686 | – | – | – | – | – | 16,686 |
| At 31 December 2003 | 445,301 | 1,043,182 | 98,064 | 60,331 | 23,592 | 444,862 | 2,115,332 |
| Comprising: | | | | | | | |
| At cost | – | 1,043,182 | 98,064 | 60,331 | 23,592 | 444,862 | 1,670,031 |
| At valuation | 445,301 | – | – | – | – | – | 445,301 |
| | 445,301 | 1,043,182 | 98,064 | 60,331 | 23,592 | 444,862 | 2,115,332 |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 1 January 2003 | 460 | 31,873 | 2,716 | 9,581 | 1,874 | – | 46,504 |
| Provided for the year | 10,468 | 24,269 | 6,618 | 8,193 | 2,823 | – | 52,371 |
| Eliminated on disposals | (16) | (27) | (253) | (1,817) | (69) | – | (2,182) |
| Eliminated on disposal of a subsidiary | (10) | (44) | (6) | (3) | (11) | – | (74) |
| Eliminated on valuation | (10,902) | – | – | – | – | – | (10,902) |
| At 31 December 2003 | – | 56,071 | 9,075 | 15,954 | 4,617 | – | 85,717 |
| NET BOOK VALUES | | | | | | | |
| At 31 December 2003 | 445,301 | 987,111 | 88,989 | 44,377 | 18,975 | 444,862 | 2,029,615 |
| At 31 December 2002 | 256,790 | 444,295 | 39,044 | 29,971 | 8,454 | 126,701 | 905,255 |

12. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The net book values of properties shown above comprises:

| | 2003 RMB'000 | 2002 RMB'000 |
|-------------------------------------------------------------|-----------------|-----------------|
| Land and buildings in Hong Kong under long leases | 22,800 | 22,541 |
| Land and buildings in PRC under medium term land use rights | 422,501 | 234,249 |
| | 445,301 | 256,790 |

At the balance sheet date, the Group is in the process of obtaining land use right certificates for its land and buildings in PRC amounting to RMB145,122,000 (2002: RMB7,193,000).

In the opinion of the directors, the Group is not required to incur additional cost in obtaining the land use right certificates for its land and buildings in the PRC.

The Group revalued its land and buildings as at 31 December 2003, resulting in a revaluation surplus of RMB27,588,000 (2002: RMB25,665,000) which has been credited to the revaluation reserve. The valuation was carried out by Chesterton Petty Limited, a firm of professionally qualified valuers, on an open market value basis. At 31 December 2003, the carrying value of these revalued land and buildings amounted to RMB445,301,000 (2002: RMB234,249,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation of RMB381,459,000 (2002: RMB196,003,000).

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13. INTANGIBLE ASSETS

| | Goodwill RMB'000 | THE GROUP Exclusive rights of operation RMB'000 | Total RMB'000 |
|---------------------------------------------------------|---------------------|----------------------------------------------------------|------------------|
| GROSS AMOUNT | | | |
| At 1 January 2003 | 18,124 | 5,000 | 23,124 |
| Arising on: | | | |
| – acquisition of subsidiaries (<i>note 31</i>) | 19,561 | – | 19,561 |
| – acquisition of business (<i>note a and note 33</i>) | 32,666 | – | 32,666 |
| – acquisition of a business operation (<i>note b</i>) | – | 8,000 | 8,000 |
| At 31 December 2003 | 70,351 | 13,000 | 83,351 |
| AMORTISATION | | | |
| At 1 January 2003 | 1,316 | – | 1,316 |
| Charge for the year | 3,517 | 189 | 3,706 |
| At 31 December 2003 | 4,833 | 189 | 5,022 |
| CARRYING VALUES | | | |
| At 31 December 2003 | 65,518 | 12,811 | 78,329 |
| At 31 December 2002 | 16,808 | 5,000 | 21,808 |

Notes:

- (a) During the year, the Group entered into joint venture contracts with certain independent third parties in the PRC. Under the terms of contracts, the Group agreed to inject capital into the subsidiaries in cash and the PRC joint venture partners agreed to inject capital into the subsidiaries in the form of cash and non-cash assets. Upon completion of the capital injection by both parties, the Group recognised an amount of RMB32,666,000, representing the excess of the Group's initial capital contribution in these subsidiaries over the Group's interest in the fair value of the net assets of these subsidiaries. Goodwill is amortised using straight line method over 20 years.
- (b) The amount arose from the acquisition of exclusive rights to operate in gas pipeline infrastructure and provision of piped gas in Zhuzhou City, the PRC, for a period of 30 years. The exclusive rights of operation is amortised on a straight line method over the relevant operation period.

14. NEGATIVE GOODWILL

| | THE GROUP RMB'000 |
|-----------------------------------------------------------------------|----------------------|
| GROSS AMOUNT | |
| At 1 January 2003 | 1,948 |
| Arising on: | |
| – acquisition of business (<i>note a and note 33</i>) | 1,261 |
| – acquisition of additional interests in subsidiaries during the year | 1,329 |
| At 31 December 2003 | 4,538 |
| RELEASED TO INCOME | |
| At 1 January 2003 | 192 |
| Released in the year | 226 |
| At 31 December 2003 | 418 |
| CARRYING AMOUNT | |
| At 31 December 2003 | 4,120 |
| At 31 December 2002 | 1,756 |

Note:

- (a) During the year, the Group entered into joint venture contracts with certain independent third parties in the PRC. Under the terms of contracts, the Group agreed to inject capital into the subsidiaries in cash and the PRC joint venture partners agreed to inject capital into the subsidiaries in the form of cash and non-cash assets. Upon completion of the capital injection by both parties, the Group recognised an amount of RMB1,261,000, representing the excess of the Group's interest in the fair value of the net assets of these subsidiaries over the Group's initial capital contribution in these subsidiaries.

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.

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15. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|-------------------------------|------------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 |
| Unlisted shares, at cost | 20,564 | 20,564 |
| Amounts due from subsidiaries | 1,260,348 | 717,162 |
| | 1,280,912 | 737,726 |

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

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

16. INTEREST IN AN ASSOCIATE

| | THE GROUP | |
|-----------------------------------------|-----------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 |
| Share of net assets | 3,235 | – |
| Goodwill on acquisition of an associate | 7,159 | – |
| | 10,394 | – |

Details of the Group's associate as at 31 December 2003 are as follows:

| Name of company | Form of business structure | Place of establishment | Proportion of nominal value of registered capital held by the Group | Principal activities |
|----------------------------------------------------|----------------------------|------------------------|---------------------------------------------------------------------|------------------------|
| 鹽城常建燃氣有限公司 ("Yancheng Changjian Gas Co., Ltd.") | Incorporated | The PRC | 45% | Provision of piped gas |

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

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

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | THE GROUP | |
|---------------------|-----------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 |
| Share of net assets | 22,105 | 2,500 |

Details of the Group's jointly controlled entity as at 31 December 2003 are as follows:

| Name of company | Form of business structure | Place of establishment | Proportion of nominal value of registered capital held by the Group | Principal activities |
|----------------------------------------------------------------------------|----------------------------|------------------------|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| 鹽城新奧壓縮天然氣有限公司 ("Yancheng Xinao Compressed Natural Gas Company Limited") | Incorporated | The PRC | 50% | Production and distribution of compressed natural gas |
| 東莞新奧燃氣有限公司 ("Dongguan Xinao Gas Company Limited") | Incorporated | The PRC | 49% | Investment in gas pipeline infrastructure and provision of piped gas and liquefied petroleum gas |

18. INVESTMENT IN SECURITIES

| | THE GROUP | |
|-----------------------|-----------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 |
| Investment securities | 1,000 | — |

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

Notes to the Financial Statements

For the year ended 31 December 2003

19. INVENTORIES

| | THE GROUP | |
|---------------------------------|-----------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 |
| Construction materials | 43,421 | 34,382 |
| Gas appliances | 17,449 | 5,366 |
| Piped gas | 2,168 | 1,205 |
| Bottled liquefied petroleum gas | 8,022 | 3,577 |
| Spare parts and consumable | 1,890 | 2,493 |
| | 72,950 | 47,023 |

Included above are gas appliances of approximately RMB5,825,000 (2002: nil) which are carried at net realisable value.

20. TRADE AND OTHER RECEIVABLES

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

| | THE GROUP | |
|--------------------------------------------------------|-----------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 |
| The following is an aged analysis of trade receivable: | | |
| 0 – 3 months | 129,244 | 55,553 |
| 4 – 6 months | 37,125 | 7,004 |
| 7 – 9 months | 11,528 | 5,377 |
| 10 – 12 months | 2,813 | 1,357 |
| More than 1 year | 480 | – |
| Trade receivable | 181,190 | 69,291 |
| Amount due from an officer | – | 67 |
| Prepayments, deposits and other receivables | 88,026 | 29,034 |
| | 269,216 | 98,392 |

The amount due from an officer represents the amount advanced to Ms. Lam Hiu Ha, the Head of Hong Kong Office, which is unsecured and interest free. The amount was fully repaid during the year and the maximum amount outstanding during the year amounted to RMB67,000.

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

| | THE GROUP | |
|-------------------------------------------------------------------------|-----------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 |
| Contract costs incurred plus recognised profits less anticipated losses | 185,958 | 104,378 |
| <i>Less: Progress billings</i> | (197,868) | (100,131) |
| | (11,910) | 4,247 |
| Analysed for reporting purposes as: | | |
| Amounts due from customers for contract work | 108,284 | 49,883 |
| Amounts due to customers for contract work | (120,194) | (45,636) |
| | (11,910) | 4,247 |

Notes to the Financial Statements

For the year ended 31 December 2003

22. AMOUNTS DUE FROM RELATED COMPANIES

THE GROUP

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

| Name of company | Balance at 31.12.2003 RMB'000 | Balance at 1.1.2003 RMB'000 | Maximum amount outstanding during the year RMB'000 |
|-------------------------------------------------------------------------------------------|----------------------------------|--------------------------------|-------------------------------------------------------|
| 新奧集團石家莊化工機械股份有限公司 ("Xinao Group Shijiazhuang Chemical and Machinery Company Limited") | 9,973 | 5,590 | 18,599 |
| 常州市武進燃氣總公司 ("Changzhou City Wujin Gas Company")* | 1,983 | – | 2,014 |
| 廊坊新奧物業管理有限公司 ("Langfang Xinao Property Management Company Limited") | 1,954 | 4,961 | 9,874 |
| 萊陽市燃氣公司 ("Laiyang City Gas and Heating Corporation")* | 1,366 | 860 | 1,366 |
| 廊坊新城房地產開發有限公司 ("Langfang Xincheng Property Development Company Limited") | 1,320 | – | 1,320 |
| 安瑞科蚌埠壓縮機有限公司 ("Enric Bengbu Compressed Machinery Company Limited") | 1,002 | 56 | 1,002 |
| 諸城市燃氣熱力總公司 ("Zhucheng City Gas and Heating Corporation")* | 721 | 320 | 721 |
| 連雲港科普置業公司 ("Lianyungang Kepu Property Company")* | 550 | – | 550 |
| 連雲港城市投資建設有限公司 ("Lianyungang City Construction and Investment Company Limited")* | 275 | – | 275 |
| 開封市發展投資有限公司 ("Kaifung City Development Investment Company Limited")* | 200 | – | 200 |
| 廊坊新奧酒店管理有限公司 ("Langfang Xinao Hotel Management Company Limited") | 89 | 544 | 1,080 |
| 蘭溪東升能源有限公司 ("Lanxi Dongsheng Energy Company Limited")* | 49 | – | 2,000 |
| 北京市昌平市政經濟發展總公司 ("Beijing City Changping Urban Economic Development Head Corporation")* | 43 | 2,023 | 2,023 |
| 海寧萬通燃氣有限公司 ("Haining Wan Tong Gas Company Limited")* | 34 | – | 34 |
| 淮安市燃氣總公司 ("Huainan City Gas Company")* | 19 | – | 19 |
| 新奧集團股份有限公司 ("Xinao Group Company Limited") | – | 1,325 | 1,325 |
| 廊坊新奧置業有限公司 ("Langfang Xinao Property Company Limited") | – | 45 | 45 |
| | 19,578 | 15,724 | |

* Minority shareholders of subsidiaries

22. AMOUNTS DUE FROM RELATED COMPANIES (CONT'D)

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

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

23. TRADE AND OTHER PAYABLES

| | THE GROUP | |
|-----------------------------------------------------|-----------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 |
| The following is an aged analysis of trade payable: | | |
| 0 – 3 months | 179,726 | 90,007 |
| 4 – 6 months | 14,889 | 13,078 |
| 7 – 9 months | 6,882 | 8,943 |
| 10 – 12 months | 5,582 | 3,670 |
| More than 1 year | 22,714 | 16,968 |
| Trade payable | 229,793 | 132,666 |
| Advances received from customers | 11,727 | 7,611 |
| Accrued charges and other payables | 67,278 | 41,298 |
| | 308,798 | 181,575 |

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For the year ended 31 December 2003

24. AMOUNTS DUE TO RELATED COMPANIES

THE GROUP

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

| Name of company | 2003 RMB'000 | 2002 RMB'000 |
|-----------------------------------------------------------------------------------|-----------------|-----------------|
| 株洲市城市建設投資有限公司 * | 30,033 | — |
| 湘潭市煤氣公司 ("Xiangtan City Coal Gas Company")* | 12,465 | — |
| 長沙市燃氣總公司 * | 10,306 | — |
| Changzhou City Wujin Gas Company* | 3,663 | — |
| Xinao Group Shijiazhuang Chemical and Machinery Company Limited 新奧集團國際經濟發展有限公司 | 2,209 | 160 |
| 北京新奧廣廈房地產開發有限公司 | 945 | — |
| Huaian City Gas Company* | 290 | — |
| Haining Wan Tong Gas Company Limited* | 271 | — |
| 海寧民泰煤氣公司 * | 66 | — |
| Enric Bengbu Compressed Machinery Company Limited | 51 | — |
| Xinao Group Company Limited | 25 | 22 |
| 上海岩鑫實業投資有限公司 ("Shanghai Yanxin Enterprise Investment Company Limited")* | 8 | — |
| 蚌埠市城市建設投資經營有限公司 ("Bengbu City Construction Investment Company Limited")* | — | 11,650 |
| 安吉豐陵液化氣公司 ("Anji County Fengling LPG Company")* | — | 6,218 |
| 聊城市熱力公司 ("Liaocheng City Gas and Heating Corporation")* | — | 724 |
| 平谷縣液化石油氣公司 ("Pinggu Country LPG Company")* | — | 84 |
| | — | 2 |
| | 60,332 | 18,860 |

* *Minority shareholders of subsidiaries*

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

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

25. AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

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

26. BANK AND OTHER LOANS

| | THE GROUP | | THE COMPANY | |
|------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 | 2003 RMB'000 | 2002 RMB'000 |
| Secured bank loans | 33,173 | 49,344 | – | – |
| Unsecured bank loans | 1,053,244 | 374,666 | 620,100 | 248,040 |
| | 1,086,417 | 424,010 | 620,100 | 248,040 |
| Unsecured loans from minority shareholders | 25,509 | 43,418 | – | – |
| | 1,111,926 | 467,428 | 620,100 | 248,040 |
| The bank and other loans are repayable: | | | | |
| Within one year | 541,390 | 202,016 | 82,680 | – |
| Between one to two years | 322,022 | 4,615 | 289,380 | – |
| Between two to five years | 248,514 | 252,765 | 248,040 | 248,040 |
| More than five years | – | 8,032 | – | – |
| | 1,111,926 | 467,428 | 620,100 | 248,040 |
| Less: Amount due within one year shown under current liabilities | (541,390) | (202,016) | (82,680) | – |
| Amount due after one year | 570,536 | 265,412 | 537,420 | 248,040 |

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

Notes to the Financial Statements

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27. DEFERRED TAXATION

At the balance sheet date, the Group had deferred taxation amounting to RMB17,058,000 (2002: RMB10,618,000) arising on valuation of properties. The movements of deferred taxation during the current and prior reporting periods are as follows:

| | THE GROUP | |
|---------------------------------------------|-----------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 |
| At beginning of the year | 10,618 | 3,730 |
| Charge to equity during the year | 6,613 | 6,888 |
| Reversal on disposal of a subsidiary | (48) | – |
| Reversal on disposals of land and buildings | (125) | – |
| At end of the year | 17,058 | 10,618 |

At the balance sheet date, the Group has unused tax losses of RMB33,662,000 (2002: RMB3,093,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB1,914,000 (2002: RMB3,093,000) that will expire in 2007. Other losses will expire in 2008.

28. SHARE CAPITAL

| | 2003 Number of shares | 2002 | 2003 HK\$'000 | 2002 HK\$'000 |
|--------------------------------------------|--------------------------|---------------|------------------|------------------|
| Shares of HK\$0.10 each | | | | |
| Authorised: | | | | |
| At beginning and end of the year | 3,000,000,000 | 3,000,000,000 | 300,000 | 300,000 |
| Issued and fully paid: | | | | |
| At beginning of the year | 737,000,000 | 627,000,000 | 73,700 | 62,700 |
| Issue of shares on placing (<i>note</i>) | – | 110,000,000 | – | 11,000 |
| At end of the year | 737,000,000 | 737,000,000 | 73,700 | 73,700 |
| | | | RMB'000 | RMB'000 |
| Presented in financial statements as: | | | | |
| At beginning of the year | | | 78,122 | 66,462 |
| Issue of shares on placing (<i>note</i>) | | | – | 11,660 |
| At end of the year | | | 78,122 | 78,122 |

28. SHARE CAPITAL (CONT'D)

Note:

On 25 March 2002, 110,000,000 shares of HK\$0.10 each were issued at HK\$3.05 per share by way of placing. These shares rank pari passu with the existing shares in all respects. The net proceeds from shares issued were used as general working capital and expansion of the Group.

29. SHARE OPTION SCHEME

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

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

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

The following tables disclose details of the Company's share options held by the employees (including directors) and movements in such holdings under the two schemes during the year:

2001 Scheme

| | Date of grant | Exercise period | Exercise price | Number of options outstanding at 1.1.2003 HK\$ | Cancelled during the year HK\$ | Number of options outstanding at 31.12.2003 HK\$ |
|-----------|---------------|----------------------|----------------|---------------------------------------------------|-----------------------------------|-----------------------------------------------------|
| Directors | 31.1.2002 | 1.8.2002 – 31.1.2012 | HK\$2.625 | 9,900,000 | (9,900,000) | – |
| Employees | 31.1.2002 | 1.8.2002 – 31.1.2012 | HK\$2.625 | 8,100,000 | (8,100,000) | – |
| | | | | 18,000,000 | (18,000,000) | – |

Notes to the Financial Statements

For the year ended 31 December 2003

29. SHARE OPTION SCHEME (CONT'D)

2001 Scheme (Cont'd)

| | Date of grant | Exercise period | Exercise price | Number of options outstanding at 1.1.2002 HK\$ | Granted during the year HK\$ | Number of options outstanding at 31.12.2002 HK\$ |
|-----------|---------------|----------------------|----------------|---------------------------------------------------|---------------------------------|-----------------------------------------------------|
| Directors | 31.1.2002 | 1.8.2002 – 31.1.2012 | HK\$2.625 | – | 9,900,000 | 9,900,000 |
| Employees | 31.1.2002 | 1.8.2002 – 31.1.2012 | HK\$2.625 | – | 8,100,000 | 8,100,000 |
| | | | | – | 18,000,000 | 18,000,000 |

2002 Scheme

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

No option of 2002 Scheme was granted during the year ended 31 December 2002.

At 31 December 2003, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 32,300,000 (2002: 18,000,000 outstanding under the 2001 Scheme) representing 4.4% (2002: 2.4%) of the shares of the Company in issue as at that date. Total consideration of HK\$38 was received by the Company during the year on acceptance of each grant.

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

30. RESERVES THE GROUP

| | Share premium RMB'000 | Special reserve RMB'000 | Goodwill reserve RMB'000 | Statutory reserves RMB'000 | Revaluation reserve RMB'000 | Accumulated profits RMB'000 | Total RMB'000 |
|---------------------------------------------------------------------------------------|-----------------------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|-----------------------------------|------------------|
| At 1 January 2002 | 248,941 | 1,167 | 5,590 | – | 8,725 | 121,776 | 386,199 |
| Surplus arising on valuation of land and buildings | – | – | – | – | 25,665 | – | 25,665 |
| Tax effect on valuation surplus | – | – | – | – | (6,888) | – | (6,888) |
| Share of valuation surplus by minority shareholders | – | – | – | – | (2,424) | – | (2,424) |
| Arising on shares issued on placing | 343,970 | – | – | – | – | – | 343,970 |
| Shares issue expenses | (13,083) | – | – | – | – | – | (13,083) |
| Profit for the year | – | – | – | – | – | 127,916 | 127,916 |
| At 31 December 2002 and 1 January 2003 | 579,828 | 1,167 | 5,590 | – | 25,078 | 249,692 | 861,355 |
| Surplus arising on valuation of land and buildings | – | – | – | – | 27,588 | – | 27,588 |
| Tax effect on valuation surplus | – | – | – | – | (6,613) | – | (6,613) |
| Share of valuation surplus by minority shareholders | – | – | – | – | (5,443) | – | (5,443) |
| Eliminated on disposal of a subsidiary | – | – | – | – | (181) | 181 | – |
| Eliminated on disposal of land and buildings | – | – | – | – | (375) | 375 | – |
| Reversal of tax effect on valuation surplus upon disposal of a subsidiary | – | – | – | – | 44 | (44) | – |
| Reversal of tax effect on valuation surplus upon disposal of land and buildings | – | – | – | – | 112 | (112) | – |
| Profit for the year | – | – | – | – | – | 183,090 | 183,090 |
| Transfer | – | – | – | 33,430 | – | (33,430) | – |
| At 31 December 2003 | 579,828 | 1,167 | 5,590 | 33,430 | 40,210 | 399,752 | 1,059,977 |

Notes to the Financial Statements

For the year ended 31 December 2003

30. RESERVES (CONT'D)

THE COMPANY

| | Share premium RMB'000 | Accumulated profits (losses) RMB'000 | Total RMB'000 |
|-------------------------------------|-----------------------------|--------------------------------------------|------------------|
| At 1 January 2002 | 248,941 | 842 | 249,783 |
| Arising on shares issued on placing | 343,970 | – | 343,970 |
| Share issue expenses | (13,083) | – | (13,083) |
| Loss for the year | – | (2,874) | (2,874) |
| At 31 December 2002 | 579,828 | (2,032) | 577,796 |
| Loss for the year | – | (12,186) | (12,186) |
| At 31 December 2003 | 579,828 | (14,218) | 565,610 |

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

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

Under the Companies Law of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve, unless immediately following the date on which distributions or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

At the balance sheet date, the Company's reserves available for distribution to shareholders amounted to RMB565,610,000 (2002: RMB577,796,000).

31. ACQUISITION OF SUBSIDIARIES

During the years ended 31 December 2003 and 2002, the Group acquired the following companies, particulars of which are as follows:

| Name of subsidiary | Acquired company | Equity interest acquired | Consideration |
|------------------------------------|------------------------------------------------------------------------------------------------|--------------------------|---------------|
| Year ended 31 December 2003 | | | |
| Xinao Jiangsu Investment Limited | 連雲港新奧燃氣有限公司 Lianyungang Xinao Gas Company Limited | 70% | RMB50,000,000 |
| | 連雲港市宏大燃氣設備安裝 工程有限公司 Lianyungang City Hongda Gas Equipment Engineering Company Limited | 62% | |
| Year ended 31 December 2002 | | | |
| Xinao Jiangsu Investment Limited | 鹽城新奧燃氣有限公司 Yancheng Xinao Gas Company Limited | 80% | RMB8,000,000 |

Notes to the Financial Statements

For the year ended 31 December 2003

31. ACQUISITION OF SUBSIDIARIES (CONT'D)

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

| | 2003 RMB'000 | 2002 RMB'000 |
|---------------------------------------------------------------------------------|-----------------|-----------------|
| Net assets acquired | | |
| Property, plant and equipment | 72,415 | 13,999 |
| Inventories | 1,317 | 3,107 |
| Trade and other receivables | 2,462 | 1,660 |
| Bank balances and cash | 4,860 | 1,468 |
| Trade and other payables | (5,211) | (15,233) |
| Bank and other loans | (30,000) | – |
| Minority interests | (15,404) | (1,116) |
| | 30,439 | 3,885 |
| Goodwill | 19,561 | 4,115 |
| Total consideration | 50,000 | 8,000 |
| Satisfied by | | |
| Cash consideration | 50,000 | 8,000 |
| Outflow of cash and cash equivalents arising on acquisition | | |
| Cash consideration | 50,000 | 8,000 |
| Bank balances and cash acquired | (4,860) | (1,468) |
| Net outflow of cash and cash equivalents in respect of purchase of subsidiaries | 45,140 | 6,532 |

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

| | RMB'000 | RMB'000 |
|------------------------------------------------------|---------|---------|
| Results | | |
| Contribution to the Group's turnover | 5,295 | 9,256 |
| Contribution to the Group's profit for the year | (831) | 3,702 |
| Cash flows | | |
| Contribution to the Group's net operating cash flows | 2,333 | 5,997 |
| Utilisation of funds for investing activities | (1,079) | (5,427) |

32. DISPOSAL OF A SUBSIDIARY

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2003

33. MAJOR NON-CASH TRANSACTIONS

During the year, the Group established certain subsidiaries in the PRC. Apart from the cash contributions of RMB50,821,000 (2002: RMB8,294,000) from the minority shareholders, the minority shareholders also contributed the capital in the form of non-cash assets.

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

| | 2003 RMB'000 | 2002 RMB'000 |
|-------------------------------------------------|-----------------|-----------------|
| Non-cash assets | | |
| Property, plant and equipment | 390,244 | 60,503 |
| Inventories | 13,791 | 4,995 |
| Trade and other receivables | 67,676 | 2,441 |
| Trade and other payables | (79,489) | (20,890) |
| Amounts due to related companies | (131,520) | – |
| Bank and other loans | (118,772) | – |
| | 141,930 | 47,049 |
| Goodwill recognised (<i>note 13</i>) | 32,666 | 5,812 |
| Negative goodwill recognised (<i>note 14</i>) | (1,261) | – |
| | 173,335 | 52,861 |

34. CAPITAL COMMITMENTS

| | THE GROUP | |
|-------------------------------------------------------------------------------------|-----------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 |
| Capital expenditure in respect of the acquisition of property, plant and equipment: | | |
| – contracted but not provided for | 25,561 | 9,340 |
| – authorised but not contracted for | 14,200 | – |

35. LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | 2003 RMB'000 | 2002 RMB'000 |
|---------------------------------------|-----------------|-----------------|
| Within one year | 2,762 | 1,806 |
| In the second to fifth year inclusive | 4,290 | 3,244 |
| Over five years | 440 | – |
| | 7,492 | 5,050 |

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

The Group as lessor

Certain of the Group's properties with a carrying amount of RMB28,279,000 (2002: RMB20,605,000) are held for rental purposes. The depreciation charge of these properties amounted to RMB1,590,000 (2002: RMB1,152,000) for the year. The properties are expected to generate rental yields of 8.5% on an ongoing basis. All of the properties held have committed tenants for the next two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

| | 2003 RMB'000 | 2002 RMB'000 |
|---------------------------------------|-----------------|-----------------|
| Within one year | 2,221 | 1,805 |
| In the second to fifth year inclusive | 117 | 1,805 |
| | 2,338 | 3,610 |

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

36. PLEDGE OF ASSETS

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

| | 2003 RMB'000 | 2002 RMB'000 |
|-------------------------------|-----------------|-----------------|
| Property, plant and equipment | 79,972 | 73,601 |

Notes to the Financial Statements

For the year ended 31 December 2003

37. RELATED PARTY TRANSACTIONS

| Nature of transaction | Name of related party | 2003 RMB'000 | 2002 RMB'000 |
|----------------------------------------------|--------------------------------------------------------|-----------------|-----------------|
| Provision of gas connection service (Note i) | Enric Bengbu Compressed Machinery Company Limited | 315 | – |
| | Langfang Xincheng Property Development Company Limited | 1,920 | 72 |
| | | 2,235 | 72 |
| Sales of gas (Note ii) | Enric Bengbu Compressed Machinery Company Limited | 75 | – |
| | Langfang Xinao Hotel Management Company Limited | 536 | 526 |
| | Langfang Xinao Property Management Company Limited | 7,714 | 6,626 |
| | Xinao Group Company Limited | 141 | 227 |
| | 8,466 | 7,379 | |
| Purchase of gas (Note ii) | Anji County Fengling LPG Company | 222 | – |
| | 海寧民泰煤氣公司 | 737 | – |
| | 959 | – | |
| Purchase of materials (note ii) | 長沙市燃氣總公司 | 152 | – |
| Repair service expense (Note ii) | Enric Bengbu Compressed Machinery Company Limited | 94 | – |
| Lease of premises by the Group (Note iii) | Langfang Xinao Property Management Company Limited | 330 | 330 |
| | Xinao Group Company Limited | 1,739 | 1,475 |
| | 海寧民泰煤氣公司 | 90 | – |
| | 2,159 | 1,805 | |
| Lease of premises to the Group (Note iii) | Haining Wan Tong Gas Company Limited | 50 | – |
| Reimbursement of management fee (Note iii) | Xinao Group Company Limited | – | 264 |

37. RELATED PARTY TRANSACTIONS (CONT'D)

| Nature of transaction | Name of related party | 2003 RMB'000 | 2002 RMB'000 |
|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------------------------------|
| Provision for management services to the Group (Note iv) | Langfang Xinao Property Management Company Limited | 1,380 | 1,299 |
| Acquisition of compressed natural gas truck trailers, pressure regulating and gas equipment (Note v) | Xinao Group Shijiazhuang Chemical and Machinery Company Limited | 10,702 | 25,980 |
| Acquisition of gas appliances (Note v) | 新奧集團國際經濟發展有限公司 | 42 | — |
| Acquisition of land and buildings (Note vi) | Zhucheng City Gas and Heating Corporation 北京新奧廣廈房地產開發有限公司 | — 9,590 | 1,560 — |
| | | 9,590 | 1,560 |
| Loan advance from minority shareholders (Note vii) | Changzhou City Wujin Gas Company Huaian City Gas Company Kaifeng City Development Investment Company Limited 新鄉市燃氣總公司 滁州市城市基礎設施開發建設有限公司 | 17,000 509 8,000 — — | — 28,254 — 13,936 1,228 |
| | | 25,509 | 43,418 |
| Interest on loan advance (Note vii) | Changzhou City Wujin Gas Company Haining Wan Tong Gas Company Limited Huaian City Gas Company Kaifeng City Development Investment Company Limited Xiangtan City Coal Gas Company 新鄉市燃氣總公司 | 658 66 60 86 51 278 | — — 248 — — 165 |
| | | 1,199 | 413 |

Notes to the Financial Statements

For the year ended 31 December 2003

37. RELATED PARTY TRANSACTIONS (CONT'D)

Notes:

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

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

38. SEGMENT INFORMATION

(a) Business segments

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

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

| | 2003 RMB'000 | 2002 RMB'000 |
|--------------------------------------------------|-----------------|-----------------|
| Turnover | | |
| Gas connection fees | 516,468 | 330,915 |
| Sales of piped gas | 185,720 | 73,588 |
| Distributions of bottled liquefied petroleum gas | 161,402 | 130,445 |
| Sales of gas appliances | 14,465 | 9,544 |
| | 878,055 | 544,492 |
| Profit from operations | | |
| Gas connection fees | 375,478 | 243,752 |
| Sales of piped gas | 28,085 | 26,578 |
| Distributions of bottled liquefied petroleum gas | 369 | (1,874) |
| Sales of gas appliances | 734 | 1,476 |
| Unallocated other operating income | 21,111 | 16,969 |
| Unallocated expenses: | | |
| – depreciation and amortisation (<i>Note</i>) | (20,962) | (14,823) |
| – corporate expenses | (172,186) | (93,817) |
| | 232,629 | 178,261 |

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

Notes to the Financial Statements

For the year ended 31 December 2003

38. SEGMENT INFORMATION (CONT'D)

(a) Business segments (Cont'd)

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

| | 2003 RMB'000 | 2002 RMB'000 |
|--------------------------------------------------|------------------|------------------|
| Assets: | | |
| Segment assets | | |
| gas connection fees | 403,894 | 130,484 |
| sales of piped gas | 219,373 | 74,397 |
| distributions of bottled liquefied petroleum gas | 55,571 | 50,248 |
| sales of gas appliances | 26,966 | 11,030 |
| unallocated segment assets | 1,310,024 | 615,988 |
| Unallocated corporate assets | 1,082,097 | 888,218 |
| | 3,097,925 | 1,770,365 |
| Liabilities: | | |
| Segment liabilities | | |
| gas connection fees | 222,444 | 101,224 |
| sales of piped gas | 34,193 | 16,852 |
| distributions of bottled liquefied petroleum gas | 1,652 | 9,052 |
| sales of gas appliances | 16,014 | 14,672 |
| unallocated segment liabilities | 82,168 | 51,753 |
| Unallocated corporate liabilities | 1,263,908 | 539,318 |
| | 1,620,379 | 732,871 |

38. SEGMENT INFORMATION (CONT'D)

(a) Business segments (Cont'd)

Other Information

| | Capital additions | | Depreciation and amortisation | |
|--------------------------------------------------|-------------------|-----------------|-------------------------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 | 2003 RMB'000 | 2002 RMB'000 |
| Gas connection fees | 98,287 | 6,246 | 3,107 | 440 |
| Sales of piped gas | 139,145 | 68,408 | 8,356 | 3,045 |
| Distributions of bottled liquefied petroleum gas | 8,698 | 65,031 | 2,947 | 3,766 |
| Sales of gas appliances | 5,462 | 157 | 212 | 96 |
| Unallocated segment | 738,185 | 243,656 | 20,962 | 14,823 |
| | 989,777 | 383,498 | 35,584 | 22,170 |

(b) Geographical segment

More than 90 per cent. of the Group's assets are located in the PRC, including Hong Kong, as at the balance sheet date.

All of the Group's businesses are derived from activities in the PRC, including Hong Kong, in both years.

39. CONTINGENT LIABILITIES

At 31 December 2002, the Group has given guarantees to a bank in respect of banking facilities granted to a third party. The extent of such facilities utilised by the third party at 31 December 2002 amounted to RMB39,500,000. Such guarantees were released during the year.

40. RETIREMENT BENEFITS SCHEME

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

| | 2003 RMB'000 | 2002 RMB'000 |
|------------------------------------------------------|-----------------|-----------------|
| Retirement benefit contribution made during the year | 3,884 | 4,486 |

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41. POST BALANCE SHEET EVENTS

- a. On 9 February 2004, a placing agreement was entered into by the Company under which a total of 122,000,000 existing shares held originally by Easywin was placed to independent third parties at the price of HK\$3.84 per share. Immediately after completion of the share placing, a total of 122,000,000 new shares was issued by the Company and subscribed by Easywin at the price of HK\$3.84 per share. The costs and expenses relating to the transactions of approximately HK\$12,000,000 was borne by the Company. After completion of the share placing and subscription, Easywin's shareholdings in the Company was diluted from 55.36% to 47.50%.

The net proceeds from the completion of the placing and subscription were approximately HK\$456,480,000. These will be used for general working capital purpose and for investment in new piped gas distribution projects and the construction and operation of natural gas stations for usage primarily by public transportation.

- b. Subsequent to the balance sheet date, the Group has made certain investments in companies established in the PRC.

Details of the investments are summarised as follows:

| Name of company | Capital contributed by the Group | Proportion of nominal value of registered capital held by the Group | Principal activities |
|-----------------|----------------------------------|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| 通遼新奧燃氣有限公司 | US\$2,400,000 | 80% | Investment in gas pipeline infrastructure, provision of piped gas |
| 湖州新奧燃氣有限公司 | US\$4,550,000 | 50% | Investment in gas pipeline infrastructure, provision of piped gas |
| 北海新奧燃氣有限公司 | RMB35,960,000 | 62% | Production and sales of LNG & CNG; design and installation of piped gas facilities; production, sales and repair of gas equipment and appliances |

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES

| Name of company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|------------------------------------------------------------------------|------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| 北京新奧燃氣有限公司 * ("Beijing Xinao Gas Company Limited") | The PRC | Registered capital US\$1,195,600 | 95% | Investment in gas pipeline infrastructure and provision of piped gas |
| 北京新奧京昌燃氣有限公司 * ("Beijing Xinao Jingchang Gas Company Limited") | The PRC | Registered capital RMB9,900,000 | 80% | Investment in gas pipeline infrastructure and provision of piped gas |
| 北京新奧京谷燃氣有限公司 * ("Beijing Xinao Jinggu Gas Company Limited") | The PRC | Registered capital RMB9,900,000 | 90% | Investment in gas pipeline infrastructure and provision of piped gas |
| 蚌埠新奧燃氣有限公司 * ("Bengbu Xinao Gas Company Limited") | The PRC | Registered capital RMB110,000,000 | 70% | Investment in gas pipeline infrastructure |
| 蚌埠新奧燃氣發展有限公司 * ("Bengbu Xinao Gas Development Company Limited") | The PRC | Registered capital US\$600,000 | 70% | Provision of piped gas and bottled liquefied petroleum gas |
| 濱州新奧燃氣工程有限公司 # ("Binzhou Xinao Gas Engineering Company Limited") | The PRC | Registered capital US\$600,000 | 100% | Investment in gas pipeline infrastructure |
| 亳州新奧燃氣有限公司 * ("Bozhou Xinao Gas Company Limited") | The PRC | Registered capital US\$4,000,000 | 70% | Provision of piped gas |
| 亳州新奧燃氣工程有限公司 * ("Bozhou Xinao Gas Engineering Company Limited") | The PRC | Registered capital US\$800,000 | 70% | Investment in gas pipeline infrastructure |
| 長沙新奧燃氣有限公司 * ("Changsha Xinao Gas Company Limited") | The PRC | Registered capital RMB150,000,000 | 55% | Investment in gas pipeline infrastructure and provision of piped gas |
| 常州新奧燃氣有限公司 * ("Changzhou Xinao Gas Company Limited") | The PRC | Registered capital US\$5,000,000 | 60% | Investment in gas pipeline infrastructure and provision of piped gas |

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For the year ended 31 December 2003

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (CONT'D)

| Name of company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|----------------------------------------------------------------------|------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| 巢湖新奧燃氣有限公司# ("Chaohu Xiniao Gas Company Limited") | The PRC | Registered capital US\$5,784,000 | 100% | Investment in gas pipeline infrastructure |
| 巢湖新奧燃氣發展有限公司* ("Chaohu Xiniao Gas Development Company Limited") | The PRC | Registered capital US\$420,000 | 100% | Provision of piped gas |
| 滁州新奧燃氣有限公司* ("Chuzhou Xiniao Gas Company Limited") | The PRC | Registered capital RMB58,710,000 | 90% | Provision of piped gas |
| 滁州新奧燃氣安裝有限公司* ("Chuzhou Xiniao Gas Engineering Company Limited") | The PRC | Registered capital US\$600,000 | 93% | Investment in gas pipeline infrastructure |
| 海安新奧燃氣有限公司# ("Haian Xiniao Gas Company Limited") | The PRC | Registered capital US\$1,200,000 | 100% | provision of piped gas |
| 海寧新奧燃氣有限公司* ("Haining Xiniao Gas Company Limited") | The PRC | Registered capital US\$5,000,000 | 80% | Investment in gas pipeline infrastructure and provision of piped gas |
| 淮安新奧燃氣有限公司* ("Huai'an Xiniao Gas Company Limited") | The PRC | Registered capital RMB30,000,000 | 80% | Investment in gas pipeline infrastructure and provision of piped gas and bottled liquefied petroleum gas |
| 葫蘆島新奧燃氣有限公司* ("Huludao Xiniao Gas Company Limited") | The PRC | Registered capital US\$1,207,700 | 90% | Provision of piped gas |
| 葫蘆島新奧燃氣發展有限公司* ("Huludao Xiniao Gas Development Company Limited") | The PRC | Registered capital US\$1,200,000 | 90% | Investment in gas pipeline infrastructure |

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (CONT'D)

| Name of company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|------------------------------------------------------------------------------|------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| 金華新奧燃氣有限公司# ("Jinhua Xinao Gas Company Limited") | The PRC | Registered capital US\$5,000,000 | 100% | Provision of piped gas |
| 金華新奧燃氣發展有限公司* ("Jinhua Xinao Gas Development Company Limited") | The PRC | Registered capital US\$600,000 | 100% | Investment in gas pipeline infrastructure |
| 開封新奧燃氣有限公司 ("Kaifeng Xinao Gas Company Limited") | The PRC | Registered capital US\$10,000,000 | 90% | Investment in gas pipeline infrastructure and provision of piped gas |
| 萊陽新奧燃氣有限公司* ("Laiyang Xinao Gas Company Limited") | The PRC | Registered capital US\$5,000,000 | 95% | Provision of piped gas |
| 萊陽新奧燃氣工程有限公司* ("Laiyang Xinao Gas Engineering Company Limited") | The PRC | Registered capital US\$800,000 | 97% | Investment in gas pipeline infrastructure |
| 廊坊新奧燃氣有限公司# ("Langfang Xinao Gas Company Limited") | The PRC | Registered capital US\$9,333,900 | 100% | Investment in gas pipeline infrastructure and provision of piped gas |
| 廊坊新奧燃氣設備有限公司# ("Langfang Xinao Gas Equipment Company Limited") | The PRC | Registered capital US\$360,000 | 100% | Manufacture of stored value card gas metre |
| 蘭溪新奧燃氣有限公司* ("Lanxi Xinao Gas Company Limited") | The PRC | Registered capital US\$1,500,000 | 80% | Investment in gas pipeline infrastructure and provision of piped gas |
| 連雲港新奧燃氣有限公司 ("Lianyungang Xinao Gas Company Limited") | The PRC | Registered capital RMB49,512,100 | 70% | Provision of piped gas |
| 連雲港新奧燃氣工程有限公司 ("Lianyungang Xinao Gas Development Company Limited") | The PRC | Registered capital RMB10,000,000 | 70% | Investment in gas pipeline infrastructure |

Notes to the Financial Statements

For the year ended 31 December 2003

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (CONT'D)

| Name of company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|-----------------------------------------------------------------------------|------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| 聊城新奧燃氣有限公司 * ("Liaocheng Xinao Gas Company Limited") | The PRC | Registered capital RMB16,000,000 | 90% | Provision of piped gas |
| 聊城新奧燃氣工程有限公司 * ("Liaocheng Xinao Gas Engineering Company Limited") | The PRC | Registered capital US\$1,200,000 | 93% | Investment in gas pipeline infrastructure |
| 六安新奧燃氣有限公司# ("Luan Xinao Gas Company Limited") | The PRC | Registered capital RMB20,000,000 | 100% | Provision of piped gas |
| 六安新奧燃氣工程有限公司# ("Luan Xinao Gas Engineering Company Limited") | The PRC | Registered capital US\$800,000 | 100% | Investment in gas pipeline infrastructure |
| 南通新奧燃氣工程有限公司# ("Nantong Xinao Gas Engineering Company Limited") | The PRC | Registered capital US\$800,000 | 100% | Investment in gas pipeline infrastructure |
| 青島新奧燃氣有限公司 * ("Qingdao Xinao Gas Company Limited") | The PRC | Registered capital RMB20,000,000 | 90% | Provision of piped gas |
| 青島新奧燃氣設施開發有限公司# ("Qingdao Xinao Gas Establishment Exploiture Co., Ltd.") | The PRC | Registered capital US\$600,000 | 90% | Investment in gas pipeline infrastructure |
| 青島新奧膠城燃氣有限公司 ("Qingdao Xinao Jiaocheng Gas Company Limited") | The PRC | Registered capital US\$5,000,000 | 51% | Investment in gas pipeline infrastructure and provision of piped gas |
| 青島新奧膠南燃氣有限公司 ("Qingdao Xinao Jiaonan Gas Company Limited") | The PRC | Registered capital US\$2,000,000 | 100% | Provision of piped gas |

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (CONT'D)

| Name of company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|--------------------------------------------------------------------------|------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| 青島新奧膠南燃氣工程有限公司 ("Qingdao Xinao Jiaonan Gas Engineering Limited") | The PRC | Registered capital US\$1,000,000 | 100% | Investment in gas pipeline infrastructure |
| 青島新奧新城燃氣有限公司 * ("Qingdao Xinao Xincheng Gas Company Limited") | The PRC | Registered capital US\$1,610,000 | 90% | Provision of piped gas |
| 青島新奧新城燃氣工程有限公司 * ("Qingdao Xinao Gas Engineering Company Limited") | The PRC | Registered capital US\$800,000 | 93% | Investment in gas pipeline infrastructure |
| 衢州新奧燃氣有限公司 * ("Quzhou Xinao Gas Company Limited") | The PRC | Registered capital RMB50,000,000 | 90% | Investment in gas pipeline infrastructure |
| 衢州新奧燃氣發展有限公司 * ("Quzhou Xinao Gas Development Company Limited") | The PRC | Registered capital US\$600,000 | 90% | Provision of piped gas |
| 日照新奧燃氣有限公司 * ("Rizhao Xinao Gas Company Limited") | The PRC | Registered capital US\$5,600,000 | 80% | Provision of piped gas |
| 日照新奧燃氣工程有限公司 * ("Rizhao Xinao Gas Engineering Company Limited") | The PRC | Registered capital US\$1,210,000 | 86% | Investment in gas pipeline infrastructure |
| 石家莊新奧燃氣有限公司 * ("Shijiazhuang Xinao Gas Company Limited") | The PRC | Registered capital RMB130,000,000 | 70% | Investment in gas pipeline infrastructure and provision of piped gas |
| 泰興新奧燃氣有限公司 * ("Taixing Xinao Gas Company Limited") | The PRC | Registered capital US\$1,200,000 | 90% | Provision of piped gas |
| 泰興新奧燃氣工程有限公司 * ("Taixing Xinao Gas Engineering Company Limited") | The PRC | Registered capital US\$800,000 | 90% | Investment in gas pipeline infrastructure |

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42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (CONT'D)

| Name of company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|-------------------------------------------------------------------------|------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| 溫州新奧燃氣有限公司# ("Wenzhou Xinao Gas Company Limited") | The PRC | Registered capital US\$3,100,000 | 100% | Investment in gas pipeline infrastructure and provision of piped gas |
| 湘潭新奧燃氣有限公司* ("Xiangtan Xinao Gas Company Limited") | The PRC | Registered capital RMB100,000,000 | 85% | Investment in gas pipeline infrastructure and provision of piped gas |
| 新奧(中國)燃氣發展有限公司# ("Xinao (China) Gas Development Company Limited") | The PRC | Registered capital US\$30,000,000 | 100% | Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and provision of piped gas |
| Xinao Gas Investment Group Limited | British Virgin Islands | Share capital US\$1,000 | 100% | Investment holding |
| 興化新奧燃氣有限公司# ("Xinghua Xinao Gas Company Limited") | The PRC | Registered capital US\$1,200,000 | 100% | Provision of piped gas |
| 興化新奧燃氣工程有限公司# ("Xinghua Xinao Gas Engineering Company Limited") | The PRC | Registered capital US\$600,000 | 100% | Investment in gas pipeline infrastructure |
| 新鄉新奧燃氣有限公司* ("Xinxiang Xinao Gas Company Limited") | The PRC | Registered capital US\$10,000,000 | 95% | Provision of piped gas and bottled liquefied petroleum gas |
| 新鄉新奧燃氣工程有限公司* ("Xinxiang Xinao Gas Engineering Company Limited") | The PRC | Registered capital US\$1,200,000 | 95% | Investment in gas pipeline infrastructure |
| 鹽城新奧燃氣有限公司# ("Yancheng Xinao Gas Company Limited") | The PRC | Registered capital RMB50,000,000 | 100% | Investment in gas pipeline infrastructure |
| 鹽城新奧燃氣發展有限公司* ("Yancheng Xinao Gas Development Company Limited") | The PRC | Registered capital US\$600,000 | 86% | Provision of piped gas |

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (CONT'D)

| Name of company | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|--------------------------------------------------------------------------|---------------------------------------|---------------------------------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| 揚州新奧燃氣有限公司# ("Yangzhou Xinao Gas Company Limited") | The PRC | Registered capital US\$1,300,000 | 100% | Provision of piped gas |
| 揚州新奧燃氣工程有限公司# ("Yangzhou Xinao Gas Engineering Company Limited") | The PRC | Registered capital US\$800,000 | 100% | Investment in gas pipeline infrastructure |
| 煙台新奧燃氣有限公司# ("Yantai Xinao Gas Company Limited") | The PRC | Registered capital US\$2,100,000 | 100% | Investment in gas pipeline infrastructure and provision of piped gas |
| 諸城新奧燃氣有限公司* ("Zhucheng Xinao Gas Company Limited") | The PRC | Registered capital US\$3,000,000 | 80% | Provision of piped gas and bottled liquefied petroleum gas |
| 諸城新奧管道工程有限公司* ("Zhucheng Xinao Pipeline Engineering Company Limited") | The PRC | Registered capital US\$800,000 | 86% | Investment in gas pipeline infrastructure |
| 株洲新奧燃氣有限公司 ("Zhuzhou Xinao Gas Company Limited") | The PRC | Registered capital RMB135,000,000 | 55% | Investment in gas pipeline infrastructure and provision of piped gas |
| 鄒平新奧燃氣有限公司# ("Zouping Xinao Gas Company Limited") | The PRC | Registered capital US\$1,200,000 | 100% | Provision of piped gas |

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

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

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

None of the subsidiaries had any debt securities subsisting as at 31 December 2003 or at any time during the year.

* Sino-foreign equity joint venture

Foreign owned enterprise