新奧燃气控股有限公司
XinAo Gas Holdings Limited
(Stock code: 2688)

The Path to Sustainable Growth

annual report 2005

The Path to

Sustainable Growth

annual report 2005

With ceaseless efforts, Xinao Gas' business thrives upon extensive pipeline networks and growing gas penetration rates. The seed planted years ago is entering fruition. We are on the path to sustainable growth.

The Group has a

11.8%

penetration rate of piped natural gas

The Group has

10 CNG

vehicle refuelling stations

The connectable population grew to

32,387,000

Contents

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-executive Director

Zhao Baoju

Independent non-executive Directors

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

Company Secretary & Qualified Accountant

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

Authorised Representatives

Yang Yu
Cheng Chak Ngok

Members of the Audit Committee

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

Members of the Remuneration Committee

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

Registered Office

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

Principal Place of Business in Hong Kong

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

Head Office in The PRC

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

Principal Share Registrar and Transfer Office in the Cayman Islands

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

Hong Kong Branch Share Registrar and Transfer Office

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

Stock Exchange Listing

The Stock Exchange of Hong Kong Limited

Stock Code

2688

Auditors

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

Legal Adviser

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

Principal Bankers

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

Website

www.xinaogas.com

E-mail address

xinao@xinaogas.com

The Network

is Gaining Ground

The Group has a total of 7,268 km pipeline network, serving 1.79 million residential households and 4,041 commercial/industrial users (with a total designed daily capacity of 2,495,479 m^3).

CHAIRMAN'S STATEMENT

RESULTS OF THE YEAR

The Group continued to record substantial growth in its results for 2005. The turnover and profit attributable to equity holders of the Company for the year reached RMB2,056,826,000 and RMB303,118,000 respectively, representing increases of 42.8% and 20.9% over last year respectively. Earnings per share increased by 15.2% to RMB34.1 cents.

This year, the Group secured seven new piped gas projects, of which three were located in Zhejiang Province and one each in Anhui Province, Fujian Province, Guangdong Province and Henan Province, more than the Group's target of securing four to six new projects set at the beginning of the year. Our total connectable population coverage rose by 11.2% to approximately 32,387,000. Among the new projects secured, Quanzhou City, the Group's first project in Fujian Province, will construct a liquefied natural gas ("LNG") import terminal, which will greatly facilitate the Group's project development in Fujian Province. The securing of a project with an LNG terminal also demonstrated the Group's competitive advantages in the industry.

During the year, the Group made new connections to 334,637 residential households and 1,140 commercial/industrial ("C/I") customers (connected to gas appliances of a total installed designed daily capacity of 1,045,466 cubic meters). The year-on-year increase in residential households and designed daily capacity of C/I customers were 32.1% and 99.0% respectively. The sales volume of piped gas for the year also grew tremendously by 90.4%. The strong growth in new connections and gas sales further consolidated the Group's long term recurring revenue in the future.

FINANCIAL POSITION

As at the end of 2005, the Group's cash on hand was RMB1,784,055,000, and total debts were RMB3,547,202,000.

In August 2005, the Company issued US$200 million (equivalent to RMB1,614,040,000) of 7-year high yield bonds with 7.375% coupon rate. The bonds provided adequate funds for the Group's project development and further enlarged our investor base. As a foreign investor investing in the gas markets of the People's Republic of China (the "PRC"), the Group may also enjoy the benefits of the continuous appreciation of Renminbi. The Group on the whole obtains foreign funding for the investment in the PRC gas projects. As the Group's profit is in Renminbi, it will be converted into foreign currencies for future repayment of the loans (including the US$200 million bonds). Therefore, it will indirectly lower the Group's capital costs.

INTERNATIONAL AWARDS

Because of its excellent management, the Company continued to receive awards from various prominent international

Sustainable Growth

financial magazines during the year: "Asia's Best Managed Companies (Medium Cap in China)" by *AsiaMoney*, from which the Company has gained awards for five consecutive years, "Chinese Business 500" by *Yazhou Zhoukan* for five consecutive years and "The Best Small Cap" by *FinanceAsia*.

In addition, the Company's issue of US$200 million of 7-year high yield bonds in August 2005 was highly regarded by the investment community: The bonds had a lowest-ever coupon rate among the Chinese high yield bonds and was awarded "Best Asian High Yield Bond Issue for 2005" by the renowned international financial magazine *EuroWeek*. These all showed that the market and the investors recognised and appreciated the Company's prospects and credibility.

It was not easy to obtain such achievements, but the Group's management will endeavor to maintain our outstanding performance and continue to achieve even better results and reputation, so as to create maximised value for our shareholders and the Company.

CORPORATE MANAGEMENT

Since its listing, Xinao Gas has secured gas projects across 14 provinces, municipalities and autonomous regions in the PRC. Therefore, the Group has established nine regional management centers (merging the 12 centers in 2004 for reducing operation costs). To enhance regional management and to ensure achievement of the Group's targets, senior management staff have been appointed as general managers of the regional centers, and professional directors of

The Group has further increased its market share and brand recognition in the PRC piped gas distribution market

WANG Yusuo
Chairman

marketing, finance, technology, personnel and construction cost management, etc. have been posted to each regional center.

To further enhance management quality, the Group has engaged IBM Global Services (China) Company Limited ("IBM") as consultant to launch a consultation project on process streamlining and information system management. Learning from world-class enterprises and drawing on international best practices and experiences, the Group will carry out informatisation in full swing, which will enable us to have quicker response to customers, enhance service standards, facilitate the management to access timely and accurate information for business decision and development, and strengthen management capabilities.

CUSTOMER SERVICE

Since its establishment, the Group has always upheld principles of "based on people" and "ensuring healthy growth of staff, creating satisfaction for customers" and made the best efforts to provide safe, quality and efficient service to our customers. The Group's service principle of "361º service - more efforts, much more satisfaction" has impressed our customers. During the year, 11 project companies of the Group obtained awards like "Units with High Consumer Satisfaction", "Units Trusted by Consumers" and "Trustworthy Units", etc, from the local consumer councils and were regarded as models for other public utilities.

In 2005, seven more project companies of the Group also have launched the 95158 national customer service hotline. Our customers can simply dial 95158 to access their local 24- hour customer service centers. The Group's emergency-repair vehicles are linked to the 110 network to enable us to handle any emergency situations immediately and efficiently and uphold our promise to arrive at the site within 20 minutes to carry out repair work.

During the year, the Group has optimised the customer service standards and workflow to ensure that customers' complaints can be handled more timely and effectively, so as to enhance the Group's customer service. In addition, the Group has provided leaflets of "Gas Usage Safety Standards" to new customers after connection and arranged staff to conduct safety checks twice a year on customers' gas appliances. As prevention is always better than cure, these measures help to eliminate potential safety problems for customers, and thus increase their trust and encourage potential customers to make piped gas connections.

At present, the Group has built up good image and brand recognition in the industry with its quality customer service, efficient operation management and sound safety track records. Our operating projects set good examples and become a competitive advantage for the Group to obtain new projects successfully when developing new markets.

In 2006, the Group will continue to focus on our customers. We will consult IBM and learn from it the successful experiences and practices of how other enterprises transformed into "service-oriented companies". The Group will consolidate and optimise our existing customer service resources to further enhance its performance and market competitiveness.

HUMAN RESOURCES

As at the end of 2005, the Group had 10,331 employees. The growth in manpower by 2,511 employees during the year was the result of the increasing number of project cities from 52 to 59. It is expected that the number of employees will continue to grow with increased number of new projects and business expansion in the coming year.

The Group endorses the principle of "based on people" and believes that our employees are the source of the Group's competitiveness. Therefore, we put great emphasis on recruitment and internal training and offer learning and studying opportunities to employees as a kind of benefits and rewards. The Group encourages employees to have lifelong learning, tailor-makes practical career development plans for employees and creates open career paths for them, which in turn ensure adequate human resources for the Group's sustainable and healthy development.

During the year, the Group organised 40 training sessions and seminars on informatisation, sustainable growth, good leadership, financial systems, process streamlining, sales techniques, project management, operation and management of gas stations, knowledge on safety check, etc, to enable continuous learning of employees and hence further uplift the quality of employees and management.

PROSPECTS

The PRC government actively promotes the use of natural gas throughout the country as a clean energy source. The share of natural gas in the total energy consumption of the PRC will increase year by year in the future. According to the 11th Five-Year Plan, the PRC government will strengthen the development of basic industries and infrastructures, emphasise both oil and gas, reinforce the exploration and exploitation of oil and gas, extend the cooperation with other countries, increase strategic oil reserve capacity and develop oil substitutes steadily. These measures clearly illustrate that the development of natural gas industry has become one of the basic state policies of the PRC. Currently, the PRC's three oil and gas giants (PetroChina, Sinopec, CNOOC) are actively exploring new oil and gas fields and participating in the exploration and acquisitions of overseas oil and gas fields to further ensure natural gas sources. For example, there has been breakthrough in exploration and exploitation of gas fields in the northeast of Sichuan and in the East China Sea, and agreements to import natural gas from Russia.

The Group has also prepared itself for long term development. The Group has strategic adjustments on its development plans from 2005 onwards: instead of focusing on obtaining a large number of new piped gas projects, we shift our emphasis to boosting gas penetration rates in our existing projects and developing compressed natural gas ("CNG") vehicle refuelling stations, which can increase the long term natural gas sales. The strategic adjustments are based on the Group's consideration that most of the rich cities with piped natural gas sources have been taken up by the existing gas operators, and the Group will not invest in projects that do not meet our stringent required rates of return. However, as there will be more piped natural gas sources in the future, such as the LNG import terminals to be completed in the coming years, the Group will continue to obtain some quality projects.

As at the end of 2005, the Group had a connectable population of 32,387,000, equivalent to approximately 10,796,000 households, and the penetration rate was only 16.6%. According to the Group's past experience, the penetration rates can reach as high as 70% - 80%. Even if the Group slows down its acquisition and secures fewer new projects, the Group expects to maintain its high growth, as the gas penetration rates of residential households and the sales volume of C/I customers will grow rapidly in the coming three to four years impelled by the strong economic growth in the PRC. In addition, the Group has reached critical mass in terms of connectable population coverage, and the long term revenue is guaranteed by growing penetration rates and more CNG refuelling stations. Therefore, in the future, the Group will have higher flexibility to select projects with high quality, high return or strategic significance.

Natural gas source is the key factor for the development of the Group as well as the whole natural gas industry. Therefore, not only the three oil and gas giants continue the exploration of new oil and gas fields and the construction of more long distance pipelines and LNG import terminals, the Group also has started to develop upstream business. Apart from the development of the LNG project in Weizhou Island, Guangxi since 2004, the Group will also participate in the establishment of a company engaged in coal conversion business in 2006. The business is to convert coal into dimethyl ether ("DME") to enhance the supply of backup gas sources and support the Group's development. DME is a clean fuel and can directly substitute natural gas and LPG without any alternation to the existing piped gas facilities. It is expected that the coal conversion project will commence construction in 2006 and be put into production in 2009. It will guarantee future gas sources, stabilise gas cost and bring in additional long term revenue. Besides, it is in line with the PRC government's policies of environmental protection and development of oil and gas substitutes, so it is strongly supported by the PRC government.

The Group believes that the city piped gas market in the PRC, after its rapid development in the past years, may enter into the stage of merges and acquisitions in the coming years. This will offer good opportunities for further development and expansion to the Group, a large and renowned gas operator.

With the Group's well-developed brand recognition in the industry, which is a result of our quality customer service and safe and efficient operation management, the Group has started to explore and develop value-added services based on our customer resources and brand name. We will try to develop other value added businesses in project cities with high penetration rates, so as to generate more revenue from diversifies services and create new profit without putting in additional resources.

Under all the favorable conditions, we believe that the Group will have better development prospects, higher ability to ensure reliable gas sources and higher flexibility in selecting new projects for business expansion. It is expected that with the Group's strategic adjustment, informatisation and streamlining of business processes, the Group can make more efficient use of resources and take full advantage of the Group's leading edges in the industry. We will gradually turn from a high growth company into a public utilities company in the future years, so as to minimise investment risks and maximise shareholders' wealth.

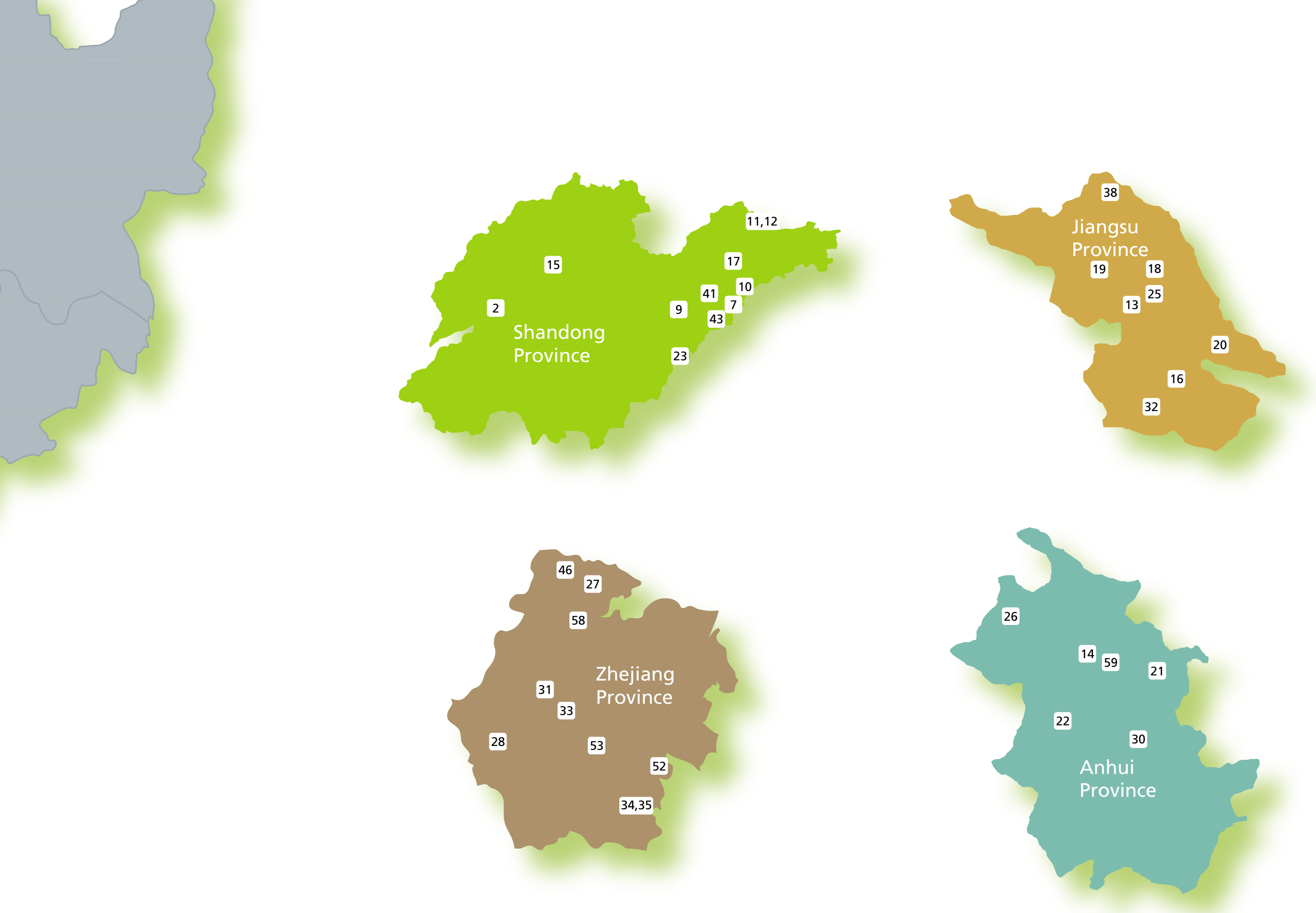
Wang Yusuo
Chairman
20 April 2006

Core Value

is the Keystone for Success

With the corporate culture of integrity and reliability, and the prudent and sound investment strategy, we continue to seize the golden opportunities in the PRC natural gas market.

OPERATIONAL LOCATIONS



OPERATIONAL LOCATION	CONNECTABLE URBAN POPULATION	OPERATIONAL LOCATION	CONNECTABLE URBAN POPULATION	OPERATIONAL LOCATION	CONNECTABLE URBAN POPULATION
1 Langfang	443,000	21 Chuzhou	226,000	41 Jiaozhou	240,000
2 Liaocheng	420,000	22 Luan	314,000	42 Zhuzhou	788,000
3 Miyun	129,000	23 Rizhao	251,000	43 Jiaonan	303,000
4 Huludao	530,000	24 Xinxiang	773,000	44 Tongliao	320,000
5 Xingcheng	126,000	25 Xinghua	153,000	45 Guilin	620,000
6 Pinggu	115,000	26 Bozhou	208,000	46 Huzhou	205,000
7 Huangdao	400,000	27 Haining	130,000	47 Zhanjiang	589,000
8 Changping	100,000	28 Quzhou	176,000	48 Luquan	88,000
9 Zhucheng	362,000	29 Shijiazhuang	2,173,000	49 Shangqiu	1,453,000
10 Chengyang	464,000	30 Chaohu	323,000	50 Shantou	1,354,000
11 Yantai Development Zone (1)	–	31 Lanxi	119,000	51 Guigang	300,000
12 Yantai	1,743,000	32 Wujin	986,000	52 Huangyan	285,000
13 Gaoyou	186,000	33 Jinhua	104,000	53 Yongkang	229,000
14 Bengbu	895,000	34 Wenzhou (2)	–	54 Zhaoqing Development Zone	63,000
15 Zouping	178,000	35 Longwan	275,000	55 Xianyang	522,000
16 Taixing	206,000	36 Xiangtan	718,000	56 Luoyang	1,474,000
17 Laiyang	257,000	37 Dongguan	3,731,000	57 Quanzhou	991,000
18 Yancheng	383,000	38 Lianyungang	702,000	58 Xiaoshan	259,000
19 Huaian	750,000	39 Changsha	2,126,000	59 Fengyang	110,000
20 Haian	189,000	40 Kaifeng	830,000		
					32,387,000

Remarks: (1) The population of Yantai Development Zone is included in Yantai
(2) Operational location in Wenzhou is in the development zone and does not have population data

PROJECT OPERATIONAL DATA

operational data as at 31 December 2005

	Operational location[1]	Year of establishment	Length of existing pipelines (km)[2]	No. of existing natural gas processing stations	Daily capacity of existing natural gas stations (m^3)
1	Langfang	1993	319	3	410,000
2	Liaocheng	2000	394	2	100,000
3	Miyun	2000	138	3	168,000
4	Huludao[3]	2000	181	1	30,000
5	Xingcheng	2002	–	–	–
6	Pinggu	2001	122	1	72,000
7	Huangdao	2001	202	1	72,000
8	Changping	2001	127	1	102,000
9	Zhucheng	2001	108	1	38,400
10	Chengyang	2001	196	2	350,000
11	Yantai Development Zone	2001	10	1	30,000
12	Yantai	2004	282	2	340,000
13	Gaoyou	2001	33	1	4,600
14	Bengbu	2002	165	1	96,000
15	Zouping	2002	102	1	130,000
16	Taixing	2002	74	1	96,000
17	Laiyang	2002	100	1	72,000
18	Yancheng	2002	92	1	30,000
19	Huaian	2002	143	1	70,000
20	Haian	2002	37	1	4,000
21	Chuzhou	2002	267	2	270,000
22	Luan	2003	59	1	60,000
23	Rizhao	2002	157	1	300,000
24	Xinxiang	2002	582	1	500,000
25	Xinghua	2002	44	1	50,000
26	Bozhou	2003	43	1	46,000
27	Haining	2002	60	1	108,000
28	Quzhou	2002	60	1	180,000
29	Shijiazhuang	2002	389	1	602,000
30	Chaohu	2003	37	1	120,000
31	Lanxi	2003	12	1	100,000
32	Wujin	2003	296	2	430,000
33	Jinhua	2003	56	1	20,000
34	Wenzhou	2003	26	1	120,000
35	Longwan	2004	–	–	–
36	Xiangtan	2003	46	2	180,000
37	Dongguan	2003	125	2	122,000
38	Lianyungang	2003	243	3	100,000
39	Changsha	2003	539	6	1,633,250
40	Kaifeng	2003	592	1	100,000
41	Jiaozhou	2003	76	1	40,000
42	Zhuzhou	2003	290	2	100,000
43	Jiaonan	2003	104	1	120,000
44	Tongliao	2004	24	1	50,000
45	Guilin	2004	24	–	–
46	Huzhou	2004	78	1	620,000
47	Zhanjiang	2004	35	1	360,000
48	Luquan	2004	16	–	–
49	Shangqiu	2004	48	1	240,000
50	Shantou	2004	26	–	–
51	Guigang	2004	5	–	–
52	Huangyan	2005	83	–	–
53	Yongkang	2005	–	–	–
54	Zhaoqing Development Zone	2005	–	–	–
55	Xianyang	2001	–	–	–
56	Luoyang	2006	–	–	–
57	Quanzhou	–	–	–	–
58	Xiaoshan	1994	–	–	–
59	Fengyang	2005	–	–	–
Total			**7,267**	**64**	**8,786,250**

Notes:

(1) Some operational locations are operated by two companies to separate the pipelines construction business and gas distribution business. The combined data of the companies in each operational location is shown in this table.

(2) Existing pipelines consist of intermediate pipelines and main pipelines.

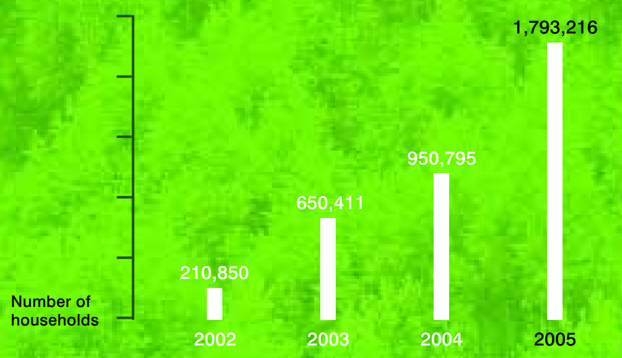
Accumulated connected piped natural gas residential households	Accumulated connected piped natural gas C/I customers (Site)	Accumulated Installed designed daily capacity for C/I customers (m³) (piped natural gas)	Accumulated connected piped gas residential households	Accumulated connected C/I customers (Sites)	Accumulated Installed designed daily capacity for C/I customers (m³) (piped gas)
91,489	412	249,813	91,489	412	249,813
48,836	140	56,238	48,836	140	56,238
21,370	77	89,750	21,370	77	89,750
60,621	152	69,968	60,621	152	69,968
–	–	–	–	–	–
14,086	66	36,137	14,086	66	36,137
50,031	55	112,079	50,031	55	112,079
24,343	83	17,299	24,343	83	17,299
11,621	19	6,812	14,043	19	6,812
32,850	71	59,231	32,850	71	59,231
–	1	12,000	–	1	12,000
14,852	14	113,990	136,206	199	149,479
5,285	43	5,325	5,285	43	5,325
38,613	54	94,925	40,213	54	94,925
7,853	22	16,120	8,714	22	16,120
9,568	72	41,026	11,324	72	41,026
14,684	19	4,009	18,548	19	4,009
21,981	96	34,379	21,981	96	34,379
32,680	30	25,501	32,863	30	25,501
4,664	34	8,921	4,664	34	8,921
21,167	50	59,220	23,167	50	59,220
16,265	17	2,952	17,472	17	2,952
18,432	35	11,233	18,432	35	11,233
57,477	136	49,485	92,294	214	65,485
4,084	27	5,322	4,084	27	5,322
5,021	21	6,948	5,021	21	6,948
8,278	14	30,875	12,830	18	31,275
13,434	16	8,093	15,311	16	8,093
30,245	26	111,021	296,722	291	344,021
8,453	19	3,854	8,844	19	3,854
1,419	3	108	1,482	4	128
23,526	150	182,508	31,208	150	182,508
14,147	31	9,539	22,202	45	11,286
2,282	9	9,640	2,282	9	9,640
–	–	–	–	–	–
21,463	25	25,138	46,277	55	25,415
12,971	57	56,152	36,971	102	58,752
23,947	65	24,690	59,947	90	26,990
79,137	149	300,836	157,254	245	304,436
23,142	194	46,804	101,914	613	110,004
8,039	22	16,290	11,640	22	16,290
24,733	64	52,198	98,720	243	80,223
8,487	2	5,800	8,487	2	5,800
3,096	4	1,545	7,505	5	1,674
7,043	7	5,678	13,125	7	5,678
9,828	13	11,678	9,828	13	11,678
7,081	13	5,820	16,593	37	8,870
767	–	–	767	–	–
4,200	14	3,127	5,000	16	3,177
2,203	6	2,700	12,473	24	4,712
1,755	3	641	2,125	3	641
394	2	156	14,400	2	156
1,372	1	6	1,372	1	6
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
969,315	**2,655**	**2,103,580**	**1,793,216**	**4,041**	**2,495,479**

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

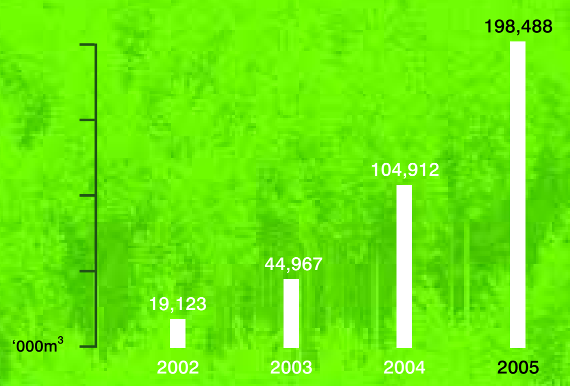
OPERATIONAL AND FINANCIAL SUMMARY

Operational

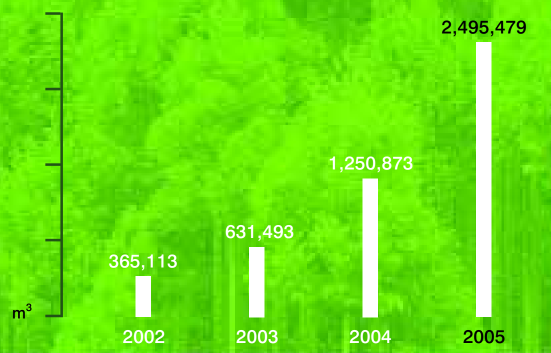
Accumulated Number of Connected Residential Households



Units of Piped Gas Sold to Residential Households



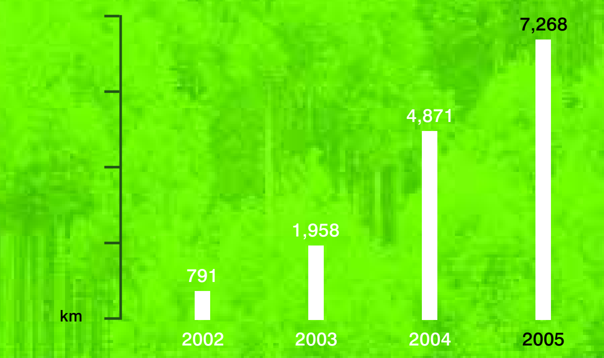
Accumulated Installed Designed Daily Capacity for Commercial/ Industrial Customers



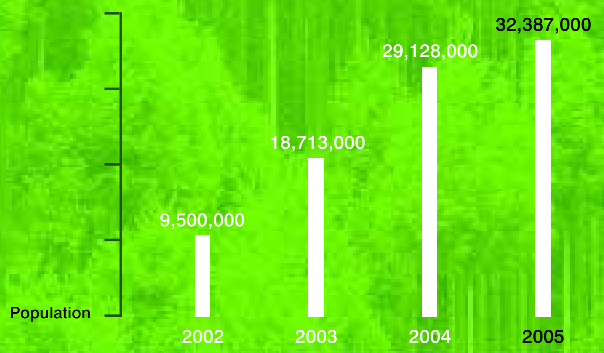
Units of Piped Gas Sold to Commercial/Industrial Customers

Financial

Length of Existing Intermediate Pipelines and Main Pipelines



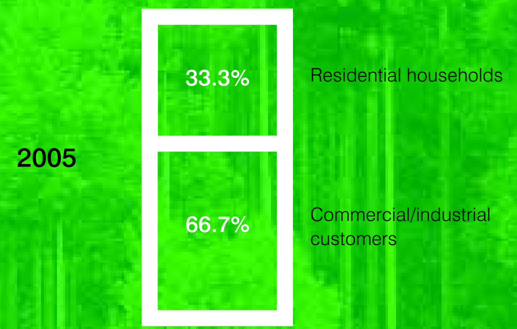
Coverage of Connectable Urban Population



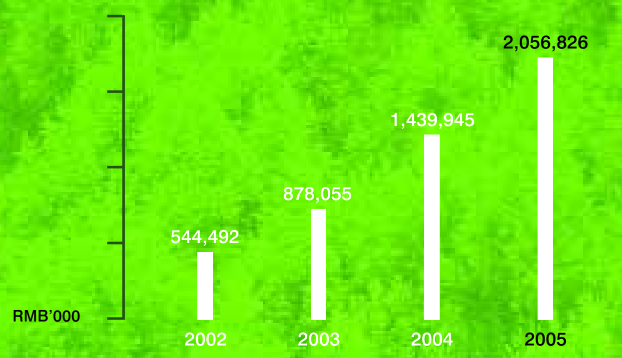
Turnover Breakdown by Customer

Connection Fees

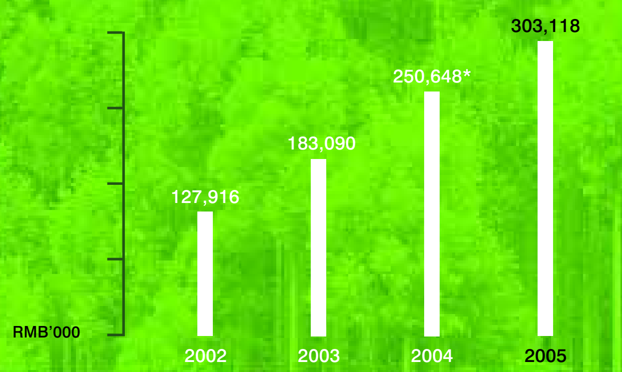
Sales of Piped Gas



Turnover

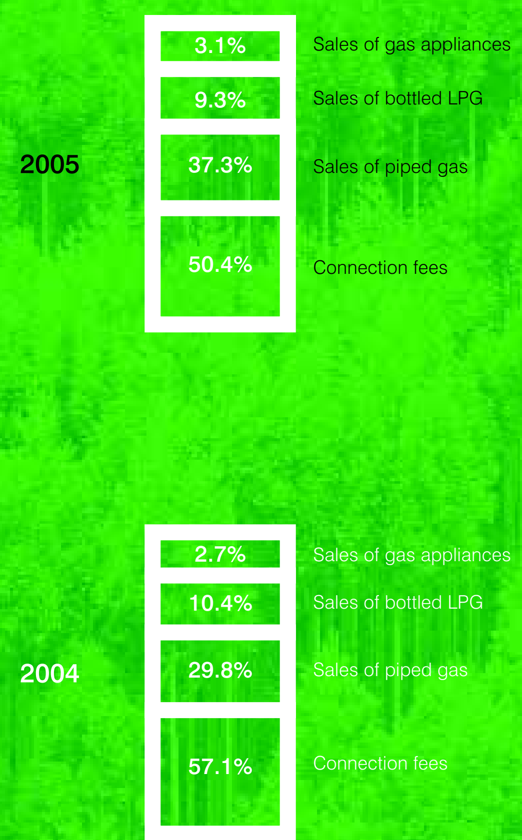


Profit Attributable to Shareholders



* Restated

Turnover Breakdown by Segment



COMPARISON OF SEVEN-YEAR RESULTS

	2005	2004 (Restated)	2003	2002	2001	2000	1999
Highlights (Group)							
Number of connected households (Natural Gas)	**969,315**	634,678	381,283	210,850	108,001	66,253	30,607
Installed designed daily capacity for commercial/industrial customers (m^3) (Natural Gas)	**2,103,580**	1,058,114	532,793	365,113	269,747	139,302	104,026
Units of piped gas sold							
Residential households (m^3)	**198,488,000**	104,912,000	44,967,000	19,123,000	14,089,000	5,645,000	2,893,000
Commercial/industrial customers (m^3)	**273,051,000**	142,798,000	71,626,000	30,407,000	20,496,000	11,259,000	8,890,000
Length of existing pipelines [(1)] (km)	**7,268**	4,871	1,958	791	464	257	143
Number of natural gas processing stations	**64**	51	35	25	12	7	2
Daily capacity of existing natural gas processing stations (m^3)	**8,786,000**	7,493,000	4,709,000	3,178,000	837,800	561,800	100,000
Turnover & Profit (RMB'000)							
Turnover	**2,056,826**	1,439,945	878,055	544,492	240,560	122,270	52,923
Profit before taxation	**428,987**	313,108	199,242	156,058	99,598	50,370	25,572
Income tax expenses	**(38,719)**	(9,196)	(2,957)	(12,324)	(11,081)	(6,976)	(3,836)
Profit for the year	**390,268**	303,912	196,285	143,734	88,517	43,394	21,736
Minority interests	**(87,150)**	(53,264)	(13,195)	(15,818)	(9,250)	(6,018)	(6,653)
Profit attributable to equity holders of the Company	**303,118**	250,648	183,090	127,916	79,267	37,376	15,083
Dividends	**45,440**	25,254	–	–	–	30,529	–
Assets & Liabilities							
Non-current assets	**4,306,275**	3,013,077	2,104,824	925,307	415,824	260,999	96,920
Associate	**128,661**	61,025	10,394	–	–	–	–
Jointly controlled entities	**235,432**	170,499	22,105	2,500	–	–	–
Current assets	**2,851,725**	1,608,829	960,602	842,558	307,481	174,032	161,784
Current liabilities	**(1,682,082)**	(1,261,830)	(1,032,785)	(456,841)	(201,195)	(334,507)	(147,667)
Non-current liabilities	**(2,989,143)**	(1,230,748)	(587,594)	(276,030)	(51,945)	(20,915)	(15,000)
Net assets	**2,850,868**	2,360,852	1,477,546	1,037,494	470,165	79,609	96,037
Capital & Reserves							
Share capital	**95,819**	91,954	78,122	78,122	66,462	–	–
Reserves	**2,236,270**	1,830,610	1,059,977	861,355	386,199	69,830	57,393
Equity attributable to equity holders of the Company	**2,332,089**	1,922,564	1,138,099	939,477	452,661	69,830	57,393
Minority interests	**518,779**	438,288	339,447	98,017	17,504	9,779	38,644
	2,850,868	2,360,852	1,477,546	1,037,494	470,165	79,609	96,037
Earnings per share	**34.1 cents**	29.6 cents	24.8 cents	18.0 cents	14.3 cents	8.9 cents	3.6 cents

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

Steady and Sustainable Growth on Solid Foundation

The CNG vehicle refuelling station business expanded into Bengbu, Langfang, Shijiazhuang and Xinxiang, with a total of 10 stations and 4,257 converted vehicles.

Connecting Everybody

Natural gas is used in urban households for cooking, showering and heating

INDUSTRY REVIEW

ENERGY CONSUMPTION PATTERN IN PRC

With the steady high economic growth in the People's Republic of China (the "PRC"), its demand for energy also continued to increase tremendously in 2005. The PRC's current major sources of energy are coal, electricity, oil, liquefied petroleum gas ("LPG") and natural gas. While the PRC is the world's second largest energy consumer, its energy consumption pattern is very different from that of the world. For instance, in 2004, oil, natural gas and coal made up 36.8%, 23.7% and 27.2% respectively in the world's energy consumption; in the PRC, coal is the predominant energy source and made up 67.7% of its total energy consumption, while oil made up 22.7%, and natural gas 2.6% only.

The PRC has ample coal resources, though the use of coal causes serious pollution to the environment. In 2005, the PRC central and local governments tightened the safety control on coal productions and closed down many coal mines that were below safety standards.

Therefore, coal price in the PRC increased over 10% during the year. The rapid economic development in the PRC drove up its demand for electricity, and the supply of electricity in the PRC still could not meet its demand in 2005. As a result, there were 12 provinces experienced limited supply of electricity in peak time during the year, which might indirectly cause the commercial/industrial ("C/I") customers to switch to using natural gas.

During the year, the demand for oil in the PRC continued to soar. Because the output of crude oil in the PRC could not meet its demand, imported crude oil accounted for over 40% of consumption in the PRC in 2005. International oil prices also rose over 40% for the year. These would all indirectly promote the demand for oil substitutes, such as natural gas and dimethyl ether ("DME").

Natural gas is not just one of the cleanest, safest, most efficient and economical energy sources, but also has obvious advantages in environmental and social efficacy and is more competitive in price than other clean energy sources like LPG and electricity. Therefore, the PRC government is vigorously promoting the use of natural gas as a clean energy source. According to the statistics of Energy Bureau, National Development and Reform Commission ("NDRC"), in 2005, the output of natural gas in the PRC increased 22.5% from 40.8 billion cubic meters in 2004 to 50.0 billion cubic meters in 2005. As forecasted by Energy Research Institute, NDRC, the demand growth of natural gas will be well ahead of coal and oil in the PRC in the future 20 years. With accelerated urbanisation and higher urban environmental protection standards in the PRC, the natural gas industry will have even wider prospects in the PRC energy market.

PRC POLICIES ON CITY PIPED NATURAL GAS MARKET

Since the issue of "Opinion concerning the speeding up of the development of market economy in the public utilities sector" by the Ministry of Construction of the PRC at the end of 2002 and "Opinions on encouraging the development of non-state-owned economy" by the State Council of the PRC at the beginning of 2005, the market liberalisation of urban gas industry in the PRC has been accelerated. Private and foreign investors have actively participated in the investment in, and the construction and operation of, city gas business in the PRC.

According to "Circular on reforming natural gas wellhead price to establish a pricing mechanism and making appropriate increase in natural gas wellhead price in the recent period" issued by the NDRC on 23 December 2005, the price of natural gas will change from being stable in the past to being pegged with the prices of oil, coal and LPG. The natural gas industry will greatly benefit from this new policy. Firstly, in the PRC, natural gas is in average 30% - 50% cheaper than coal gas, electricity and LPG; when natural gas wellhead price is pegged with these energy sources, natural gas will always maintain its price competitiveness over those major substitute energy sources in the PRC, and so more users will switch to using natural gas. Secondly, the current natural gas price in the PRC is only about 40% of the international prices. As the prices of the pegged energy sources are expected to rise, the natural gas price will also be pushed up, which will facilitate large volume import of liquefied natural gas ("LNG"). The availability of natural gas sources is the key for the development of the whole natural gas industry. Sufficient gas sources can help enhance the sustainable development of the industry, and the market liberalisation of the city piped natural gas industry will become more comprehensive and mature.

According to the 11th Five-Year Plan, the PRC government will strengthen the development of basic industries and infrastructures, emphasise both oil and gas, reinforce the exploration and exploitation of oil and gas, extend the cooperation with other countries, increase strategic oil reserve capacity and develop oil substitutes steadily.

The construction of various branch pipelines of the West-East Pipeline, the commencement of gas supply of Zhongxian-Wuhan Pipeline, the exploration of offshore natural gas and the smooth progress of the LNG import projects in coastal areas, together with the central and local governments' emphasis on using natural gas, all facilitate the rapid and continuous development of downstream natural gas business. As a result, the Group will have even greater business development prospects.

BUSINESS REVIEW

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

CONSTRUCTION OF GAS PIPELINES

During the year, the Group had strategic adjustments to slow down the acquisition of new projects and boost connections in existing projects. As the Group's piped gas users only accounted for 16.6% of the total connectable population, it is expected that the Group will continue to have huge revenue from connection, and connection will still be the major revenue source of the Group. With the rapid growth in the number of residential households and C/I customers in the piped gas projects, the Group's natural gas sales volume also increased remarkably. As the proportion of gas sales will increase year by year, in spite of the strong growth in connection fees, the Group expects that the proportion of connection fees to total turnover will decline gradually.

Residential Customers

During the year, the Group continued to devote lots of efforts to connecting more residential households in the project cities. Flats connected to piped natural gas are in general preferred by new home buyers. Also, the continuous upsurge of international oil prices drove up the price of LPG, the main substitute of natural gas, and enlarged the price difference between LPG and natural gas. These boosted the connection business of the Group and lowered the costs for developing new customers.

During the year, the Group made natural gas connections for 334,637 residential households, 32.1% more than last year. The average connection fee paid by households was RMB2,647. As at the end of 2005, the Group provided natural gas connections to a total of 969,315 households, which accounted for 9.0% of the overall connectable population of the Group. If the 302,495 acquired/converted natural gas users were added, the penetration rate would be 11.8%. And if the other piped gas users were also added, the total number of residential users was 1,793,216, and the penetration rate would be 16.6%. Such penetration rates also show that the Group still has a large pool of potential customers for new connections.

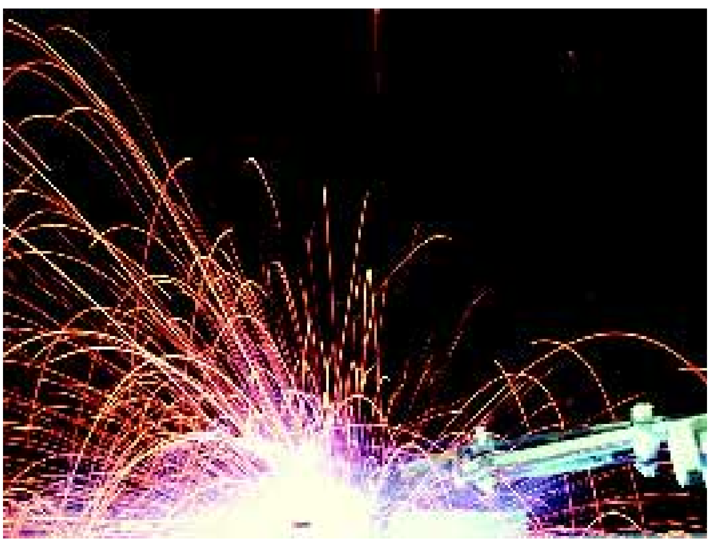
Commercial/Industrial Customers

As the local governments in the PRC have implemented more stringent measures for environmental protection and put more efforts in controlling industrial pollution, more and more cities restrict the use of coal and require new commercial or industrial projects to use clean energy. However, other clean energy sources, such as electricity and LPG, are much more expensive than natural gas. Hence, it facilitates the promotion of natural gas among C/I customers. In addition, more large projects of the Group have been or will be connected to piped natural gas sources, such as West-East Pipeline and Zhongxian-Wuhan Pipeline, as well as the Guangdong LNG terminal to be completed in 2006; it facilitates the Group to make massive connections to C/I customers in an organised manner.

C/I customers are the Group's major gas users, and over 60% of natural gas sales comes from them. To accelerate the market development of C/I customers, the Group has strengthened the technological support for sales and marketing. Besides, the Group has established 54 demonstration sites of connected C/I customers, which consist of 27 industries and spread out in 13 project locations. It can increase the potential customers' confidence in using natural and promote C/I business effectively.

Prefecting Partnership

Natural gas can be the fuel for various industries, such as steel, glass, pottery and dyeing, etc.



During the year, the Group provided natural gas connections for 1,140 C/I customers (connected to gas appliances of a total installed designed daily capacity of 1,045,466 cubic meters), 99.0% more over last year, which clearly illustrates the Group's effective marketing strategy and the competitive advantages of natural gas over other fuel substitutes. The average connection fee was RMB268 per cubic meter, 11.3% lower than last year. As C/I customers are the major gas users and consume huge volume of gas, the Group offered discounts to large C/I customers in projects with piped natural gas sources in order to increase future gas sales volume.

As at the end of 2005, the Group provided piped natural gas connections for a total of 2,655 C/I customers (connected to gas appliances of a total installed designed daily capacity of 2,103,580 cubic meters). If the acquired and converted natural gas users were added, the Group would supply natural gas to a total of 3,439 C/I customers (connected to gas appliances of a total installed designed daily capacity of 2,286,861 cubic meters). If the other piped gas users were also added, the Group would supply natural gas to a total of 4,041 C/I customers (connected to gas appliances of a total installed designed daily capacity of 2,495,479 cubic meters).

New Projects

In 2005, the Group started its strategic adjustments. The Group has slowed down the acquisition of new projects and switched focus from obtaining many new piped gas projects to boosting penetration rates in existing projects and developing CNG vehicle refuelling stations ("CNG stations"), which will increase long term natural gas sales. The Group considers that most of the rich cities with piped natural gas sources have been taken up by the existing gas operators, and the Group will not invest in projects that do not meet our stringent required rates of return. However, as there will be more piped natural gas sources in the future, such as the LNG import terminals to be completed in the coming years, the Group will continue to obtain some quality projects. The strategic adjustments also enable the Group to concentrate resources and have more effective management of the 59 projects across 14 provinces, municipalities and autonomous regions.

Currently, the Group has an overall penetration rate of 16.6% only, and from the Group's past experience, the penetration rates can reach as high as 70% - 80%. Even if the Group slows down its acquisition and secures fewer new projects, the Group expects to maintain its high growth, as the gas penetration rates of residential households and the sales volume of C/I customers will grow rapidly in the coming three to four years impelled by the strong economic growth in the PRC. In addition, the Group has reached critical mass in terms of connectable population coverage, and the long term revenue is guaranteed with growing penetration rate and more CNG refuelling stations. Therefore, in the future, the Group will have higher flexibility to select projects with high quality, high return or strategic significance.

In 2005, the Group secured seven new piped gas projects, more than the Group's target of securing four to six new projects set at the beginning of the year, and the Group's number of projects increased from 52 last year to 59 this year, and the connectable population grew by 11.2 % to 32,387,000 (approximately 10,796,000 households) by the end of 2005 from 29,128,000 (approximately 9,709,000 households) last year. This makes the Group one of the largest professional city gas operators interms of population coverage in the PRC.

New projects secured by the Group during the year are as follows:

Province	Project	Connectable population
Anhui Province	Fengyang	110,000
Fujian Province	Quanzhou	991,000
Guangdong Province	Zhaoqing High New Development Zone	63,000
Henan Province	Luoyang	1,474,000
Zhanjiang Province	Hangzhou Xiaoshan	259,000
Zhanjiang Province	Taizhou Huangyan	285,000
Zhanjiang Province	Yongkang	229,000

As always, the Group emphasises strategic development of project cities. In general, the projects secured this year are cities with strong economy, well-developed industries, large population and good development potentials. For instance, Quanzhou has well-developed industrial and commercial sectors; Luoyang, with its prosperous industrial/commercial activities and high income per capita, is a pivotal city in Henan Province in terms of economy. In addition, the Group has project development in new regions: Quanzhou, the first piped gas project the Group secured in Fujian Province, signifies the Group's breakthrough in Fujian, a lucrative region. Furthermore, the Group has further expanded its strategic cooperation. The Group established strategic cooperation relations with Daqing Petroleum Administration Bureau during the year for jointly developing downstream business. Also, the Group secured Luoyang project together with China Huayou Group Company in 2005 and established Luoyang Xinao Huayou Gas Company Limited, which is our first successful joint acquisition after entering into the strategic cooperation agreement with China Huayou Group Company in 2004. Moreover, the Group has built up a successful development model from the experience of Fengyang project: the expansion from a core project to periphery cities and towns. As Fengyang is only 8 km away from the pipeline network of the Group's existing Bengbu project, which has direct access to natural gas from West-East Pipeline, the Group can make better use and increase the value of resources with relatively low cost, and hence maximise the value by fully utilising gas and other resources.

SALE OF PIPED GAS

During the year, the Group sold 198,488,000 cubic meters and 273,051,000 cubic meters piped gas to residential households and C/I customers respectively, representing increases of 89.2% and 91.2% respectively over last year. The sales volume of gas to C/I customers made up 57.9% of the total volume of gas sales, showing that the Group has large volume consumers, who lay a solid foundation to support the Group's long-term revenue.

With the Group's strategic adjustments to boost penetration rates in the coming years, and more piped natural gas sources available, which enables the Group to connect more large volume C/I customers, it is expected that the Group will continue to have considerable growth in gas sales in the coming years. It will further consolidate the Group's long term revenue and provide large and stable cash flow.

During the year, the Group and the joint venture partner in Shijiazhuang, the capital of Hebei Province, made further investment in the project, and acquired about 270,000 residential households using coal gas into Shijiazhuang Xinao Gas Company Limited, the Group's subsidiary. The Group will convert those coal gas users into piped natural gas users gradually. Apart from contributing to environmental protection, it can also increase the Group's gas sales revenue in the long run.

Gas Source

Natural gas source is the critical factor for the development of the Group as well as the whole natural gas industry. Therefore, with more projects and higher gas sales volume, the Group has also further increased its non-pipeline transmission capacity in addition to the Group's existing piped natural gas sources. The Group has one of the largest non-pipeline transmission systems in the PRC and possesses 114 LNG/CNG trucks, with a total one-time transmission capacity of up to 18,800,000 cubic meters. LNG/CNG can be used when necessary, so as to ensure gas supply. The Group has devoted great efforts in developing a contingency system that ensures gas sources and has set up a designated team. If any projects have tight supply of gas sources, the systems, together with the gas supply control center, can enhance the guarantee of gas supply.

The construction of the LNG project in Weizhou Island, Beihai, Guangxi was completed in 2005, and the project is now undergoing shakedown tests before commencing operation. It will be the fourth LNG plant in the PRC when put into production. It will mainly supply LNG to the Group's project in the south to meet the gas demand of the projects and further reduce the purchase cost of gas.

To further ensure gas sources, reduce purchase cost of gas and support the Group's policy of boosting penetration rates, the Group will participate in the establishment of a company engaged in coal conversion business in 2006. The business is to convert coal into DME, which can enhance the supply of backup gas sources and support the Group's development. DME is a clean fuel and can directly substitute natural gas and LPG without any alternation to the existing piped gas facilities. It is expected that the coal conversion project will commence construction in 2006 and be put into production in 2009. The coal conversion project will guarantee future gas sources, stabilise gas cost and bring in additional long term revenue. Besides, it is in line with the PRC government's policies of environmental protection and development of oil and gas substitutes, so it is strongly supported by the PRC government. After years of research on coal conversion projects, the Group completed the construction of a production line with an annual production capacity of 10,000 tons of DME in Bengbu City, Anhui Province, and it commenced production by the end of the year. Besides, the Group has started the research on the technology for replacing natural gas by DEM.

Apart from the Group's five projects that has used natural gas from West-East Pipeline since 2005, the Groups projects in Changsha, Zhuzhou and Xiangtan in Hunan Province also started to use the natural gas from Zhongxian-Wuhan Pipeline, and Yantai project used the offshore natural gas. After having access to piped natural sources, Changsha, Zhuzhou, Xiangtan and Yantai projects had more than 100,000 coal gas residential users converted into natural gas users. With the completion of more long distance pipelines, more and more of the Group's large projects use natural gas transmitted by pipelines. It facilitates new connections and minimises the additional cost of using CNG/LNG.

Because of the significant increase in international energy prices in 2005, the PRC government also adjusted the domestic energy pricing policy and further promoted market liberalisation of the natural gas industry. The government made adjustments to the policy on natural gas wellhead price at the end of 2005, and it is expected that natural gas price may follow other major energy prices to rise in the coming years. The PRC government also consents that natural gas downstream distributors should be allowed to make adjusts to gas tariffs according to the regulations. The Group has reinforced the communication with upstream suppliers like PetroChina to ensure gas supply. At the same time, the Group has also made application to local governments for gas tariff adjustments, so as to shift the adjusted costs to customers to protect the earning of the Group.

CNG Vehicle Refuelling Stations

Since vehicle emission is one of the major source of pollution in the large cities in the PRC, the PRC governments promotes the policies on converting vehicles to using clean energy. This will further accelerate the CNG station business. Besides, as the price of natural gas is on average 30-50% lower than gasoline, it is highly welcome by public vehicle companies and vehicle owners.

The Group has taken active measures to develop CNG stations business in its existing projects. By the end of 2005, the Group has obtained approval from governments to build 60 CNG stations, of which 10 have been completed and are in operation. It is expected that CNG station will become one of the major sources for increasing gas sales in the long term.

Advanced Collection System for Gas Usage Charges

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

Starting from last year, some of the Group's project companies started to cooperate with local banks. They use the widespread network resources of the banks for collecting gas usage charges. This cooperation makes it more convenient for our customers, reduces the Group's administrative costs and increases cost efficiency.

SALE OF BOTTLED LPG

During the year, the Group sold 45,179 tons of bottled LPG, increased by 19.6% over last year's 37,760 tons. The sales of bottled LPG increased because that the some of the new projects the Group acquired during the year had bottled LPG business. The operating profit of LPG increased from RMB908,000 last year to RMB3,960,000 this year.

The Group has been principally engaged in the sale of piped natural gas. However, some of the projects were mainly engaged in the sale of bottled LPG before being acquired by the Group. Bottled LPG is now only sold to customers not connected to piped natural gas or in peripheral towns, and it is expected to be replaced by piped natural gas gradually.

SALE OF GAS APPLIANCES

The Group sells cooking stoves, water boilers, heaters and stored-value card meters, which are relating to gas connections. The Group produces stored-value card meters, most of which are used by the Group in its own connection business. The Group lowers the average cost of meters by 30% by producing them itself. Besides, in 2005, the Group continued to sell meters to other gas distributors, which generated additional income for the Group.

GROSS AND NET PROFIT MARGINS

The Group's overall gross and net profit margins (after minority interests) were 37.5% and 14.7% respectively, and the margins dropped when compared to last year. One of the major causes for the drop was the change in the Group's revenue structure. As the penetration rates of the gas projects gets higher, although the overall penetration rate of the Group remains at 16.6% and leaves plenty of room for connection fee revenue growth, the proportion of connection fee revenue to total turnover will decline steadily: its ratio decreased from 57.1% in 2004 to 50.3% in 2005. The proportion of piped gas sales to total turnover will grow steadily with the rise of the penetration rates: its ratio increased from 29.8% in 2004 to 37.3% in 2005. As the margins of connection fee revenue are higher than piped gas sales, the change in the revenue structure will make the Group's future gross and net profit margins to be on a decreasing trend, until the revenue structure becomes relatively stable. On the other hand, this trend also reflects the enhancement in the Group's revenue structure, which shifts gradually from relying on one-off connection fee revenue to recurring and steady piped gas sales.

The other cause for the drop in the margins was the increase in minority shareholders' interests in the gas project companies, which was a result of the Group shifting from securing small-to-medium projects to medium-to-large projects. The percentage of minority interests in net profit increased from 17.4% last year to 22.3% this year. The Group still has high operation efficiency after taking into account of the change in revenue structure and profits before minority interests.

To reduce the Group's operation costs and enhance its operation efficiency, in 2005, the Group continued to strengthen the implementation of the measures from the consultation project by BearingPoint Management Consulting (Shanghai) Limited, especially on enhancing internal control and cost and expenses management. As a result, the Group has good control over selling expenses and administrative expenses and achieves more efficient operation management.

ADVANCED SAFETY MANAGEMENT SYSTEM

The Group has always put paramount priority on safe operation. The Group uses advanced IT systems for daily operations and management and also plans to launch informatisation in 2006 to enhance safe and efficient operation.

In 2005, the Group uplifted the safety operation level of the natural gas stations and launched certified safety operation of gas stations. All the 26 Type A gas stations of the Group have obtained the safe operation certificates. All the potential risks identified during the process of acquiring the certificates have been removed. In addition, 365 operating staff in the CNG/LNG stations have received training and obtained qualified certificates.

In 2005, the Group continued the development of the gas professional training centre, which was established together with Utilise Training & Development Solutions Limited in 2003. It draws on the safety and operation standards of the natural gas industry in the UK, and launched professional training and qualification recognition system to enhance the professional qualification and expertise of the employees. During the year, the training center conducted 52 sessions of training courses, and there were 1,181, 63 and 8 employees passed Level 1, Level 2 and Level 3 of the Operational Qualification and Recognition Examinations respectively. In 2006, the Group will introduce Level 4 and Level 5 Examinations, as well as the Gas Service Qualification and Recognition Examinations to foster more qualified personnel to enhance safety and operational efficiency.

OUTSTANDING MANAGEMENT

Because of its excellent management, the Company continued to receive awards from various prominent international financial magazines during the year: "Asia's Best Managed Companies (Medium Cap in China)" by *AsiaMoney*, from which the Company has gained awards for five consecutive years, "Chinese Business 500" by *Yazhou Zhoukan* for five consecutive years and "The Best Small Cap" by *FinanceAsia*. These awards, voted or nominated by international institutional investors and analysts, prove that the Company is highly regarded by investors for its high management quality and transparency.

To further enhance management quality, the Group has engaged IBM Global Services (China) Company Limited ("IBM") as consultant to launch a consultation project on process streamlining and information system management. The project will implement informatisation to provide accurate and timely information to the management, assist the management in problem solving, decision making and achieving the targets set by the Board of Directors. The project enables the Group to carry out informatisation in full swing and draw on international best practices and experiences of world class enterprises. Some project companies will launch a pilot system, and it is expected that the first phase of the project will be completed in May 2006. The implementation of the informatisation project is expected to minimise the management risks for the Group.

CUSTOMER SERVICE

Quality customer service is the key for maintaining good and long term relations between the Company and customers and the bedrock for the Group's sustainable business development. Because of our quality service, the project companies of the Group have won recognition and credit from local customers as well as government authorities in the cities they operate and become the models for other public utilities to follow. The best evidence is that 11 project companies obtained awards like "Units with High Consumer Satisfaction", "Units Trusted by Consumers" and "Trustworthy Units", etc, from the local consumer councils during the year.

In 2005, seven more project companies of the Group also have launched the 95158 national customer service hotline. Our customers can simply dial 95158 to access their local 24- hour customer service centers. The Group's emergency-repair vehicles are linked to the 110 network to enable us to handle any emergency situations immediately and efficiently and uphold our promise to arrive at the site within 20 minutes to carry out repair work.

In addition, the project companies follow the Group's policy to issue leaflets of "Gas Usage Safety Standards" to our customers and conduct safety checks twice a year on pipeline networks and customers' gas appliances. These measures help to eliminate potential safety problems, and thus increase the trust of our customers.

HUMAN RESOURCES

We always believe that our employees are our most valuable assets and the basis of the Group's competitiveness; the Group's continuous development and success depend on human resources. Therefore, we put great emphasis on recruitment and internal training.

During the year, we continued to recruit high-calibre undergraduates from renowned universities all over the PRC as well as experienced professionals in the industry or from overseas according to our development needs. The Group has comprehensive induction training for new employees to ensure that they can become qualified employees quickly and be able to provide quality service to customers, so as to maintain smooth operations of the Group.

The Group encourages staff to have lifelong learning and offers learning and studying opportunities to employees as a form of benefits and rewards. Therefore, we have sponsored some employees to study for MBA or to attend other related technical courses in renowned universities, so as to enhance their competence, professional skills and quality. The Group also emphasises internal training and arranges two days of training every month to all employees. During the year, the Group organised 40 training sessions and seminars on informatisation, sustainable growth, good leadership, financial systems, process streamlining, sales techniques, project management, operation and management of gas stations, knowledge on safety check, etc.

As at 31 December 2005, the Group had 10,331 employees, of which seven based in Hong Kong and the others based in the PRC. They were remunerated at market level with benefits like bonus, retirement benefits, insurance, professional training, share option scheme, etc.

FINANCIAL RESOURCES REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group's cash on hand (included pledged bank deposits) was RMB1,784,055,000 (2004: RMB911,537,000), and its total debts amounted to RMB3,547,202,000 (2004: RMB1,864,458,000). Its net gearing ratio, i.e. the ratio of net debt to equity (excluded minority interests), was 75.6% (2004: 49.6%).

Under the US$25,000,000 Loan Agreements with International Finance Corporation ("IFC"), the private sector arm of the World Bank Group, the Company, Mr. Wang Yusuo ("Mr. Wang") and the Borrowers (i.e. Bengbu Xinao Gas Company Limited, Shijiazhuang Xinao Gas Company Limited and Xiangtan Xinao Gas Company Limited, subsidiaries of the Company) have entered into the Share Retention Agreements with IFC on 18 May 2004 whereby Mr. Wang has agreed that, so long as any monies remain due or to become due and owing by the Borrowers to IFC under or in respect of the Loan Agreements, he and Ms. Zhao Baoju ("Ms. Zhao") will own, in aggregate, directly or, at any time that he and Ms. Zhao own in aggregate all the shares of Xinao Group International Investment Limited (formerly known as Easywin Enterprises Limited) ("XGII"), indirectly through XGII, at least 35% of the issued share capital of the Company. Mr. Wang and Ms. Zhao are the beneficial and legal owners of XGII, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. As at 31 December 2005, XGII and Mr. Wang together held 42.88% interests of the Company.

Five-year Zero Coupon Convertible Bonds

The Company issued five-year convertible bonds ("CB" or "CBs") in an aggregate principal amount of HK$550,000,000 on 15 November 2004. The CBs are zero coupon bonds; the issue price is 100% whereas the redemption price is 106.43%, which means that the effective interest rate is 1.25% per annum. The bondholders have the option to require the Company to redeem the CBs 2.5 years after the issue date. If the bondholders do not exercise the option of redemption, then they have to hold the CBs to maturity or exercise the conversion right during the conversion period. Bondholders can exercise the conversion right between 15 December 2004 and 15 November 2009 and convert the CBs into ordinary shares of HK$0.10 each of the Company, and the Company has the option to issue share or pay cash in lieu of shares to such bondholders. The conversion price for each ordinary share at the issue date of the CBs was HK$5.4375, which is subject to adjustment for events, if any, which may have diluting effects after the issue.

As at 31 December 2005, HK$79,570,000 (equivalent to RMB82,753,000) of CBs was converted into 14,633,560 ordinary shares of the Company. There were HK$470,430,000 (equivalent to RMB489,247,000) of CBs outstanding. If all the outstanding CBs are converted into shares, approximately 86,515,862 ordinary shares of the Company will be issued, equivalent to 9.57% of the total issued share capital of the Company as at 31 December 2005.

Seven-year 7.375% Fixed Rate Bonds

On 5 August 2005, the Company issued 7-year bonds in the aggregate principle amount of US$200,000,000 (equivalent to RMB1,614,040,000) with issue price and redemption price of 100%, which are unconditionally and irrevocably guaranteed by the guarantor subsidiaries. The guarantor subsidiaries are wholly-owned subsidiaries of the Company and are primarily holding companies that operate through subsidiaries. The coupon of the bonds is 7.375%, and interests are paid semi-annually. The net proceeds after deducting all expanses are US$194,000,000 (equivalent to RMB1,565,619,000). The net proceeds of the bonds will be used for business expansion, including construction of CNG stations and acquisition of new projects, and for general corporate purposes of the Group, including refinancing of existing debts. The major terms and conditions of the bonds were disclosed in the Company's announcement dated 29 July 2005.

The Group captured the chance of record-low interest rate in the USA to finance business expansion. As the Group's acquisition strategy will focus on large sized cities, the 7 year term of the Bonds can match the payback period of the investment in large sized cities. With the rising US interest rate cycle, the costs of financing with floating rates are getting higher and higher. Therefore, the Group believed that fixed rates for 7 years could facilitate the Group to have even better cost control. Also, the bonds had 5 times subscription and a lowest-ever coupon rate among Chinese bonds in similar nature at the time of issue. The bonds were also awarded "Best Asian High Yield Bond Issue for 2005" by the renowned financial magazine EuroWeek. These showed that the bondholders and investors gave strong credit to the Group and recognized the prospect of the Group's business. The issue of the bonds also facilitated the Group to enlarge investor base and enhance its financing ability.

The Group believed that the appreciation of RMB would continue in the future. As all the operations of the Group are in the PRC, the Group will benefit from earning RMB and repaying foreign currency debts.

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

BORROWINGS STRUCTURE

As at 31 December 2005, the Group's total debts amounted to RMB3,547,202,000 (2004: RMB1,864,458,000), including bonds of US$200,000,000 (equivalent to RMB1,614,040,000), zero coupon CBs of HK$470,430,000 (equivalent to RMB489,247,000), loans of US$25,000,000 (equivalent to RMB201,755,000) and a secured loan of HK$10,088,000 (equivalent to RMB10,492,000). Apart from the zero coupon CBs and the fixed rate US dollar bonds, the other US dollar and HK dollar loans bear interest at floating rates, and the remaining bank and other borrowings are denominated in Renminbi at fixed interest rates. The project companies used the Renminbi loans as their working capital and operational expenditure. Except for the loan amount of RMB109,947,000 that has to be secured by assets with the carrying amount of approximately RMB88,209,000, all of the other loans are unsecured. Short-term loans amounted to RMB566,457,000 while the remaining were long-term loans falling due after more than a year.

As all the operations of the Group are in the PRC, revenues and expenses were mainly denominated in Renminbi. Hence, there were no a significant foreign exchange exposures or risks. The Group has entered into interest rate swap contracts for the US dollar bonds. The Group will monitor the market trends of interest and exchange rates closely and make appropriate adjustments when necessary.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had contingent liabilities of RMB77,000,000 (2004: Nil).

CAPITAL COMMITMENTS

As at 31 December 2005, the Group had contracted but not provided for capital commitments of RMB15,227,000 (2004: RMB22,673,000) and had no authorised but not contracted for capital commitments (2004: RMB14,200,000) for the purchase of property, plant and equipment.

As at 31 December 2005, the Group had contracted but not provided for capital commitments of RMB161,390,000 (2004: RMB114,125,000) for the Group's share in joint ventures.

Natural Gas -

Adding Quality to Our Life

The use of natural gas, a clean, safe, efficient and economical energy source, reduces the pollution caused by a coal-fired economy.

2005

Asia's Best Managed Companies

(Medium Cap in China)

"We strive to maximise shareholder value and to make a contribution to society"


WANG Yusuo


YANG Yu


QIAO Limin


CHEN Jiacheng


JIN Yongsheng


ZHAO Jinfeng


YU Jianchao


CHEUNG Yip Sang


CHENG Chak Ngok

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. WANG Yusuo, aged 42, is the co-founder, chairman and an executive Director of the Company. He is responsible for overseeing the Group's overall strategic planning and providing leadership for and overseeing the functioning of the Board. Mr. Wang has over 20 years of experience in the investment in, and the management of, the gas business in the PRC. He holds a master's degree in management from the Tianjin University of Finance and Economics. Mr. Wang is currently a committee member of the Tenth Chinese People's Political Consultative Conference and a Vice Chairman of the Ninth Executive Committee of the All-China Federation of Industry and Commerce. He has won various awards, including Hebei's Top 10 Outstanding Young Persons and Outstanding Entrepreneurs in China. Mr. Wang is a director and controlling shareholder of Xinao Group International Investment Limited ("XGII"), which is a controlling shareholder of the Company. Mr. Wang is the spouse of Ms. Zhao Baoju and the brother-in-law of Mr. Zhao Jinfeng. Mr. Wang and Ms. Zhao Baoju jointly own various investment holding companies.

Mr. YANG Yu, aged 48, is an executive Director and the chief executive officer of the Company responsible for managing and implementing the Group's investment in the PRC, ensuring the safety of the Group's projects, securing gas supply and further increasing gas investments and markets in the PRC. Prior to joining the Group in 1998, he worked at the China Oil and Gas Pipeline Bureau. He graduated from the Pipeline Bureau Staff College of the Ministry of Petroleum Industry in 1985, obtained a master's degree in banking from Renmin University of China in 1999 and a master's degree in business administration from Nanyang Technological University in Singapore in 2005. Mr. Yang has over 20 years of experience in the PRC gas industry. Mr. Yang is the president of XGII, which is a controlling shareholder of the Company.

Mr. CHEN Jiacheng, aged 43, is an executive Director and the general manager of the Company. Mr. Chen joined the Group in 2002 and is responsible for business administration and management of the Group's gas projects. He holds a bachelor's degree in engineering from Northwest Industrial University and a master's degree in business administration from Tsinghua University. Mr. Chen has over 15 years of experience in business administration and management.

Mr. ZHAO Jinfeng, aged 38, is an executive Director and deputy general manager of the Company responsible for assisting the chief executive officer in managing and implementing the Group's investment projects in the PRC. He graduated from the Township and Village Enterprise Cadre College of the Ministry of Agriculture and worked at Langfang City Electrical Company as an economist for resources management prior to joining the Group in 1993. Mr. Zhao has over 13 years of experience in the PRC gas industry. Mr. Zhao is the brother of Ms. Zhao Baoju and the brother-in-law of Mr. Wang Yusuo.

Mr. QIAO Limin, aged 47, is an executive Director and deputy general manager of the Company responsible for safety and operational matters of the Group. Prior to joining the Group in 1993, he worked at Baotou City Education College and was an assistant lecturer at Langfang City Health College. He graduated from Baotou City Education College in 1984. Mr. Qiao has over 13 years of experience in managing gas projects and supervising gas supply operations and safety.

Mr. JIN Yongsheng, aged 42, is an executive Director and responsible for overseeing legal matters of the Group. He graduated from the Tianjin University of Finance and Economics in 1986, specializing in finance. Prior to joining the Group in 1996, he was an assistant professor in the Township and Village Enterprise Cadre College of the Ministry of Agriculture. Mr. Jin is a qualified practicing lawyer in the PRC and has over 16 years of experience in legal practice.

Mr. YU Jianchao, aged 37, is the finance Director of the Company and has joined the Group since 1998. He graduated from the Hebei Economics and Finance College in 1993 and obtained a master's degree in business administration from China Europe Business School in 2005. Prior to joining the Group, he worked as the chief accountant for a number of foreign enterprises, including GSK (Langfang) Co., Ltd. and Nissin Foods Co., Ltd.. Mr. Yu has over 17 years of experience in accounting and finance.

Mr. CHEUNG Yip Sang, aged 39, is an executive Director and deputy general manager of the Company responsible for exploring the piped gas market in the PRC. He holds a bachelor's degree in Legal Studies from The Chinese People's Armed Police Force Academy. Prior to joining the Group in 1998, he was the sales manager of Eastern Guangdong Region of Shantou Jiadan Beer Company Limited. Mr. Cheung has extensive experience in marketing and sales.

Mr. CHENG Chak Ngok, aged 35, is an executive Director, financial controller and company secretary of the Company responsible for financial management, corporate finance, implementation of good corporate governance as well as investor relations management. Prior to joining the Group in 2000, he worked at an international accounting firm and also worked as the chief accountant of a freight forwarding company. He graduated from Manchester Metropolitan University with a first class honours bachelor's degree in accounting and finance. He is a fellow member of the Association of Chartered Certified Accountants in England, and also an associate member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in England. Mr. Cheng has 13 years of experience in accounting, financial management and corporate finance. Mr. Cheng is the financial controller of XGII, which is a controlling shareholder of the Company.

Non-executive Director

Ms. ZHAO Baoju, aged 40, is the co-founder and a non-executive Director of the Company. She has over 13 years of experience in investing in gas fuel projects in the PRC. She graduated from the Hebei Medical College Nursing School in 1987 and the Chinese Language Faculty of Capital Normal University in 1998. Ms. Zhao is a director and controlling shareholder of XGII, which is a controlling shareholder of the Company. Ms. Zhao is the spouse of Mr. Wang Yusuo and the sister of Mr. Zhao Jinfeng. Ms. Zhao and Mr. Wang Yusuo jointly own various investment holding companies.

Independent Non-executive Directors

Mr. WANG Guangtian, aged 42, is an independent non-executive Director appointed by the Company in 2001. He holds a master's degree in world economics from Hebei University and has over 23 years of experience in financial and administrative management. He is currently the deputy general manager of Hebei Enterprises Limited, the window company incorporated in Hong Kong for the Hebei Provincial Government, the general manager of Overseas Way (China) Limited, a company incorporated in Hong Kong, and the executive director and general manager of China Sci-Tech Holdings Limited.

Ms. YIEN Yu Yu, Catherine, aged 35, is an independent non-executive Director appointed by the Company in 2004. She is currently an assistant director of N M Rothschild & Sons (Hong Kong) Limited. She graduated from the Imperial College of Science, Technology and Medicine of University of London in England with a Joint Honours Degree in Mathematics with Management (BSc Hons). Ms. Yien is a holder of the Chartered Financial Analyst designation and an ordinary member of the Hong Kong Securities Institute. She has extensive experience in the areas of corporate finance, investment, mergers and acquisitions.

Mr. KONG Chung Kau, aged 36, is an independent non-executive Director appointed by the Company in 2005. He is currently a sole proprietor of C.K. Kong & Co. Certified Public Accountants. Mr. Kong is a Certified Public Accountant holding practicing certificate, a fellow member of the Association of Chartered Certified Accountants and also an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Kong has extensive experience in auditing, tax planning and finance.

Senior Management

Mr. JU Xilin, aged 48, is the deputy general manager of the Company and general manager of Beijing, Hebei and Liaoning areas, responsible for market development and operation. He graduated from the Communist Party College of Heilongjiang Province in 1987, specializing in economy management. Prior to joining the Group in 1996, he worked in state-owned enterprises where he was responsible for the operational management of those enterprises. Mr. Ju has over 23 years of experience in operational management.

Mr. HAN Jishen, aged 41, is a deputy general manager of the Company and general manager of Hunan and Fujian areas, responsible for market development and operation. He graduated from Baoding Staff University in 1990. Mr. Han joined the Group in 1993 and is responsible for management and operations. He has over 13 years of experience in the gas fuel industry in the PRC.

Mr. ZHENG Haiyan, aged 39, is the Chief Engineer of the Company responsible for the management of technology and quality. He graduated from the Township and Village Enterprise Cadre College of the Ministry of Agriculture and obtained a master's degree in business administration at Hong Kong Baptist University in 2005. Prior to joining the Group in 1993, Mr. Zheng was an engineer of Installation Works Company of the Ministry of Light Industry of the PRC. He has been appointed to be a standing committee member of China Coal Gas Association. Mr. Zheng has over 13 years of experience in gas industry in the PRC.

Mr. LIANG Zhiwei, aged 42, is the Chief Economist of the Company responsible for management and operation of the Company's strategies and results. He graduated from Guilin Institute of Metallurgy and the Faculty of Resource and Environmental Engineering at the University of Science and Technology Beijing. He obtained a master of engineering degree from the University of Science and Technology Beijing in 1993. Prior to joining the Group in 1999, Mr. Liang had worked for No. 1 Bureau of the China Exploration and Engineering Bureau for 15 years.

Mr. WANG Dongzhi, aged 37, is the chief accountant of the Company. Mr. Wang graduated in 1991 with a bachelor's degree in engineering management from Beijing Chemical College (now known as Beijing Chemical University). Mr. Wang obtained a bachelor's degree in economics in 1996, the qualifications of Certified Accountant in the PRC in 2000 and a master's degree in business management from Tianjin University in 2003. Before joining the Group in 2000, Mr. Wang was in charge of the finance department of a Sino-foreign joint venture company. He has extensive experience in treasury and cost control.

Mr. YANG Junjie, aged 35, is the Deputy Chief Engineer of the Company responsible for technical research and development and technical management. He joined the Group in 2001. Mr. Yang obtained a bachelor degree of engineering from Chongqing Construction University (now known as Chongqing University), specializing in city gas engineering. He also obtained a master degree and a doctorate degree in heat supply, gas supply, ventilation and air-conditioning engineering from Shanghai Tongji University in 1997 and 2001 respectively. Mr. Yang has extensive academic attainments and rich experiences in city gas transmission and application.

CORPORATE GOVERNANCE REPORT

The Company is committed to upholding good corporate governance practices. The corporate governance principles of the Company emphasise on an effective board, prudent internal and risk control, transparency and quality disclosure and accountability to shareholders.

In the past, the board of directors (the "Board") and the management of the Company have been continually reviewing and enhancing the corporate governance practices with reference to local and international standards. The Board believes that its continued efforts in enhancing the Company's corporate governance practices have, directly and indirectly, contributed to the strong business growth of the Company and its subsidiaries (the "Group") in the past years. The Company is honoured to have received a number of awards from independent bodies recognising the Group's achievements in business and management which include the following:

AsiaMoney

- Year 2004, 2005 "Asia's Best Managed Companies (Medium Cap in China)"
- Year 2001, 2002, 2003 "Best Small Cap Company (China)"
- Year 2001, 2003 "Overall Best Managed Company (China)"

Yazhou Zhoukan

- Year 2001, 2002, 2003, 2004, 2005 "Chinese Business 500"
- Year 2003, 2004, 2005 "Top 20 Chinese Enterprises of Assets Growth"
- Year 2002, 2003 "Top 20 Chinese Enterprises of Revenue Growth"

FinanceAsia

- Year 2005 "The Best Small Cap"
- Year 2002 "Best Financial Management"
- Year 2001 "The Best Small Cap IPO"

Forbes Global

- Year 2001, 2002, 2003 "The 200 Best Under a Billion"

Code on Corporate Governance Practices

The Company has complied with the code provisions in the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). In addition, the Company has also further complied with those recommended best practices in the CG Code as set out herein.

In 2004, the Group engaged a business consultancy firm (the "Consultant") to carry out a comprehensive review conducted during 2004/2005 covering, amongst others, the system of internal control and risk management of the Group with the objectives of establishing an integrated and comprehensive control platform for:

1. internal risks identification, reporting, assessment and management;
2. knowledge management and sharing;
3. internal auditing systems with emphasis on operation and financial audit as well as management control; and
4. standardisation of work flow with reference to established best practices.

As a result of such review, the Consultant has put forward recommendations to the Board. The Board, having reviewed and considered the recommendations in conjunction with the Consultant, has adopted most of the recommendations made by the Consultant. Implementation of such recommendations has been completed.

We summarise below each of the code provisions set out in the CG Code and the recommended best practices which the Company has complied with together with corresponding details of compliance.

Compliance of the Code on Corporate Governance Practices

A. Directors

A.1 The Board

Code Principle

The board should assume responsibility for leadership and be collectively responsible for directing and supervising the issuer's affairs. Directors should make decision objectively in the interest of the issuer.

Code Provisions	Compliance	Details of Compliance
• At least four regular board meetings a year.	Yes	The Board meets at least on a quarterly basis. In 2005, a total of 18 Board meetings (including four regular Board meetings) were held. Details of Directors' attendance record of Board meetings and Board committees meetings in 2005 are as follows:

Board meeting

Director	*Attendance*	
Mr. Wang Yusuo	5/18	(4/4)*
Mr. Yang Yu	15/18	(4/4)*
Mr. Chen Jiacheng	6/18	(4/4)*
Mr. Zhao Jinfeng	6/18	(4/4)*
Mr. Qiao Limin	5/18	(4/4)*
Mr. Jin Yongsheng	12/18	(4/4)*
Mr. Yu Jianchao	15/18	(4/4)*
Mr. Cheung Yip Sang	4/18	(3/4)*
Mr. Cheng Chak Ngok	15/18	(4/4)*
Ms. Zhao Baoju	3/18	(3/4)*
Mr. Wang Guangtian	4/18	(1/4)*
Ms. Yien Yu Yu, Catherine	14/18	(4/4)*
Mr. Kong Chung Kau (appointed on 31 March 2005)	12/12	(4/4)*
Mr. Xu Liang (resigned on 31 March 2005)	0/6	(0/0)*

* regular Board meeting

Audit Committee meeting

Committee member	*Attendance*
Mr. Wang Guangtian	4/4
Ms. Yien Yu Yu, Catherine	4/4
Mr. Kong Chung Kau (appointed on 31 March 2005)	2/2
Mr. Xu Liang (resigned on 31 March 2005)	0/2

Compliance of the Code on Corporate Governance Practices *(continued)*

A.1 The Board (continued)

Code Provisions	Compliance	Details of Compliance
		Remuneration Committee meeting *Committee member* — *Attendance* Mr. Yang Yu — 1/1 Mr. Wang Guangtian — 1/1 Ms. Yien Yu Yu, Catherine — 1/1 Mr. Kong Chung Kau — 1/1 **Convertible Bond Committee meeting** *Committee member* — *Attendance* Mr. Yang Yu — 6/6 Mr. Yu Jianchao — 6/6 Mr. Cheng Chak Ngok — 6/6
• Opportunity to all directors to include matters in the agenda for regular board meetings.	Yes	Directors are consulted as to items to be included and items which the Directors may wish to include in the agenda for regular Board meetings before the relevant agenda is dispatched to the Directors.
• At least 14 days notice given to all directors prior to a regular board meeting.	Yes	Notice of a regular Board meeting are given to all Directors not less than 14 days prior to such meeting. The relevant papers and documents are given to all Directors not less than 3 days prior to such meeting.
• Access to advice and services of the company secretary.	Yes	• The company secretary of the Company (the "Company Secretary") is responsible for company secretarial matters of the Group, including Board procedures and corporate governance practices compliance. • In addition, the Company retains legal advisers and company secretarial services provider to provide legal advice and secretarial services to the Company. • All Directors have access to the services and advice of the Company Secretary.
• Minutes of meetings kept by company secretary and available for inspection.	Yes	All Board and Board committees minutes and records are kept by the Company Secretary and will be available for inspection in Hong Kong.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.1 The Board (continued)

Code Provisions	Compliance	Details of Compliance
• Draft and final minutes of board meetings sent to all directors for comments and records, in both cases, within a reasonable time.	Yes	Draft minutes of a Board meeting will be prepared by the Company Secretary and circulated to all the Directors for review and comment, and final version of the Board minutes will be sent to all Directors for record as soon as practicable after the relevant Board meeting.
• Agreed procedure for directors to seek independent professional advice at the company's expense.	Yes	The Board has adopted a written procedure for the Directors to seek independent professional advice at the Company's expense.
• If a substantial shareholder/director (or any of his/her associates) has a conflict of interest in a matter which the Board has determined to be material, a board meeting should be held. The director having interest in the matter must abstain from voting and not be counted in quorum. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	Yes	• The Articles of Association of the Company stipulate that subject to certain exceptions contained therein, a Director shall not be entitled to vote on (nor shall be counted in the quorum in relation thereto) any resolution of the Board in respect of any contract or arrangement or any other proposal whatsoever in which he/she has any material interest, and if he/she shall do so his/her vote shall not be counted (nor will he/she be counted in the quorum for the resolution). • It is the practice of the Board to hold a meeting to decide on any matter in which a substantial shareholder or a Director (or any of its/his/her associates) has a material interest and to request for presence of independent non-executive Directors.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.1 The Board (continued)

Recommended Best Practice	Compliance	Details of compliance
• Insurance cover in respect of legal action against directors.	Yes	There is in place a directors & officers liabilities insurance covering the Directors and officers of the Group.
• Board committees should adopt broadly the same principles and procedures.	Yes	Currently, there are three Board committees, being the Audit Committee, the Remuneration Committee and the Convertible Bond Committee. All Board committees adopt broadly the same principles and procedures applicable to the Board as stated in this Section A.1 hereinabove.

A.2 Chairman and chief executive officer

Code Principle

The management of the board and the day-to-day management of the issuer's business should be clearly divided and separately undertaken by different officers to ensure a balance of power and authority.

Code Provisions	Compliance	Details of compliance
• Roles and responsibilities of chairman and chief executive officer should be separate and clearly established and set out in writing.	Yes	• The roles and responsibilities of the chairman (the "Chairman") and the chief executive officer (the "CEO") of the Company are separate and clearly set out in writing. • Mr. Wang Yusuo, the Chairman, is responsible for overseeing the Group's overall direction and strategic planning. In addition, the Chairman also plays a key role in driving all Directors to actively contribute to the Board affairs and establishing good corporate governance practices and procedures. • Mr. Yang Yu, the CEO, is responsible for managing the business of the Group, executing the strategies and decisions of the Board, and managing the day-to-day operations of the Group.
• The chairman should ensure all directors be briefed on issues arising at board meetings.	Yes	Currently, the Chairman is responsible for provision of the necessary information, either through himself or other members of the management, to all Directors on issues arising at the Board meeting.
• The chairman should ensure that directors receive adequate information.	Yes	The Board has established procedure regarding supply and access of information (see Section A.6 below). Further, the Chairman will upon request provide the necessary information, either through himself or other members of the management, to all Directors for discharging their duties.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.2 Chairman and chief executive officer (continued)

Recommended Best Practice	Compliance	Details of compliance
Various recommended roles for chairman including:		
• Ensuring establishment of good corporate governance practices and procedures.	Yes	• The Chairman plays a key role in ensuring good corporate governance practices and encouraging active participation and constructive contribution and relations of the Directors.
• Encourage directors to make a full and active contribution to board affairs.	Yes	• In 2005, the Board took the following measures in relation to corporate governance practices:
• Facilitate the effective contribution of non-executive directors and ensure constructive relations between executive and non-executive directors.	Yes	1. the Board adopted guidelines regarding: a) the roles and responsibilities of the Board and the senior management; b) the procedure for the Directors to seek independent professional advice at the Company's expenses; c) the division of responsibilities between the Chairman and the CEO; and d) dealing in the securities of the Company by employees of the Group; and 2. the Company arranged training programmes and seminars on various topics covering, inter alia, matters relating to corporate governance and management of companies for the Directors.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.3 Board composition

Code Principle

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should also include a balanced composition of executive and non-executive directors (including independent non-executive directors) to ensure that independent judgment can be made effectively.

The Company's Board

The Board currently comprises nine executive Directors, one non-executive Director and three independent non-executive Directors. As at 31 December 2005, the Board members were as follows:

Mr. Wang Yusuo	(Chairman and executive Director)
Mr. Yang Yu	(CEO and executive Director)
Mr. Chen Jiacheng	(Executive Director)
Mr. Zhao Jinfeng	(Executive Director)
Mr. Qiao Limin	(Executive Director)
Mr. Jin Yongsheng	(Executive Director)
Mr. Yu Jianchao	(Executive Director)
Mr. Cheung Yip Sang	(Executive Director)
Mr. Cheng Chak Ngok	(Executive Director)
Ms. Zhao Baoju	(Non-executive Director)
Mr. Wang Guangtian	(independent non-executive Director)
Ms. Yien Yu Yu, Catherine	(independent non-executive Director)
Mr. Kong Chung Kau	(independent non-executive Director, appointed on 31 March 2005)

During the year under review, Mr. Xu Liang, an independent non-executive Director, resigned on 31 March 2005 and Mr. Kong Chung Kau was appointed as an independent non-executive Director to fill the casual vacancy.

For qualifications, experience, expertise and relationships (if any) of the Board members, please refer to the biographies of the Directors on pages 37 to 39 of this Annual Report.

Roles and functions

The Board is responsible for formulating strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Board gives clear directions as to the powers delegated to the management for the administrative and management functions of the Group. Such arrangements are reviewed by the Board on a periodic basis and appropriate adjustments may, from time to time, be made to ensure the decisions of the Board can be carried out effectively.

For the year ended 31 December 2005, the Board:

1. reviewed the performance of the Group and formulated business strategy of the Group;
2. reviewed and approved the annual results of the Group for the year ended 31 December 2004 and the interim results of the Group for the 6 months period ended 30 June 2005;
3. reviewed the effectiveness of the system of internal control and risk management of the Group;
4. reviewed the amendments to the Articles of Association and general mandates to issue and repurchase shares of the Company;
5. reviewed connected transactions of the Group; and
6. reviewed and approved the issue of US$200 million 7.375% Guaranteed Notes due 2012.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.3 Board composition (continued)

Board Committees

Currently, the Board has established the following committees with defined terms of reference:–

1. Convertible Bond Committee;
2. Audit Committee; and
3. Remuneration Committee.

The Convertible Bond Committee was established on 2 August 2005 and consists of the following members:

Mr. Yang Yu	(Executive Director and chairman of the Convertible Bond Committee)
Mr. Yu Jianchao	(Executive Director)
Mr. Cheng Chak Ngok	(Executive Director and Company Secretary)

The Convertible Bond Committee is primarily responsible for reviewing the validity of conversion notices given by holders of the convertible bonds issued by the Company and to determine either issuing new shares of the Company or making cash payment in lieu of new shares to such holders in accordance with the terms of the convertible bonds.

In 2005, the Convertible Bond Committee met 6 times. Attendance record of the convertible bonds members is set out Section A.1 above.

Further details of the Remuneration Committee and the Audit Committee are set out in Sections B.1 and C.3 below respectively.

Code Provisions	Compliance	Details of compliance
• Identify the independent non-executive directors in all corporate communications that disclose the names of directors of the issuer.	Yes	The names of all Directors and their titles (including Chairman, chief executive officer, executive Directors, non-executive Director and independent non-executive Directors) are disclosed in all corporate communications that disclose the names of the Directors, including annual reports, announcements, circulars to shareholders, notices of general meetings and in the Company's website at www.xinaogas.com.

Recommended Best Practice	Compliance	Details of compliance
• Maintain on the website an updated list of directors identifying their roles, functions and (where applicable) whether they are independent non-executive directors.	Yes	Biographies of the Directors, including their titles, roles and responsibilities, are maintained on the Company's website at www.xinaogas.com and updated from time to time.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.4 Appointment, re-election and removal

Code Principle

There should be a formal, considered and transparent procedure for the appointment of new directors to the board. All directors should be subject to re-election at regular intervals.

Currently, the Company does not have a nomination committee for appointment of new Directors to the Board. The responsibilities of identifying and selecting suitably qualified individuals to become members of the Board are undertaken by the Board collectively. Where the Board considers necessary or desirable to appoint a new member to the Board (whether to fill a casual vacancy or otherwise), each member of the Board may nominate suitable individual(s) as candidate(s) of member(s) of the Board for the decision of the Board.

In selecting a suitable candidate to become a member of the Board, the Board will consider various criteria such as education, qualification, experience, skills and possible contribution of such candidate. A Board meeting was held on 31 March 2005 to consider and approve the appointment of Mr. Kong Chung Kau as an independent non-executive Director to fill the casual vacancy upon the resignation of Mr. Xu Liang on 31 March 2005 pursuant to which Mr. Yang Yu, Mr. Yu Jianchao, Mr. Cheng Chak Ngok and Ms. Yien Yu Yu, Catherine attended the said Board meeting.

Code Provisions	Compliance	Details of compliance
• Non-executive directors should be appointed for a specific term, subject to re-election.	Yes	Currently, the term of appointment of all non-executive Directors (including independent non-executive Directors) are three years subject to retirement by rotation in accordance with the Articles of Association of the Company.
• Every director should be subject to retirement by rotation at least once every three years.	Yes	The Company's Articles of Association stipulate that every Director will be subject to retirement by rotation at least once every three years.
• All directors appointed to fill a casual vacancy should be subject to election at the first general meeting after appointment.	Yes	• The Director appointed to fill a casual vacancy during the year has been elected at the first general meeting after appointment. • Currently, the Company's Articles of Association specify that a Director appointed to fill a casual vacancy will be subject to election at the next annual general meeting after appointment. The Board will propose amendment to the Company's articles of association to ensure the relevant article is consistent with this code provision in the forthcoming annual general meeting for shareholders' approval.

Recommended Best Practice	Compliance	Details of compliance
• Further appointment of an independent non-executive director serving more than nine years requires (i) separate shareholders approval and (ii) explanatory statement to shareholders to provide information on his continual independence. • Information to shareholders regarding the independence of the independent non-executive director proposed to be appointed.	Yes	• Currently, none of the independent non-executive Directors has served the Company for more than nine years. The Company will comply with this recommended best practice as and when the situation occurs. • It is the current practice of the Company that a separate resolution will be proposed at the general meeting for shareholders' approval in respect of each Director nominated for election or re-election. • Where Directors are subject to election or re-election at a general meeting, a circular will be issued in which detailed biographies, interests and (where appropriate) independence of such Directors will be disclosed.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.5 Responsibilities of directors

Code Principle

All directors (including non-executive directors) shall keep abreast of their responsibilities as a director of an issuer, and of the conduct, business activities and development of such issuer.

Code Provisions	Compliance	Details of compliance
• Every newly appointed director should receive a comprehensive, formal induction to ensure that he/she has proper understanding of the business and his/her responsibilities under regulatory requirements, business and governance policies of the issuer.	Yes	• The Board will provide information memorandum on director's duties and obligations under the Cayman Islands laws, the Hong Kong laws and the Listing Rules to a newly appointed Director to assist such Director to understand his/her responsibilities. • The Board will also arrange for a meeting between the Company's legal advisers and a newly appointed Director in which the Company's legal advisers will explain to such Director his/her responsibilities under the relevant legal and regulatory requirements. • In addition, the Company will provide relevant information and organize various activities to ensure the newly appointed Director properly understands the business and governance policies of the Company. The newly appointed Director will be given opportunities to raise questions and give comments.
• Functions of non-executive directors include: – bringing an independent judgment at board meetings. – taking the lead where potential conflicts of interests arise. – serving on committees if invited. – scrutinizing the issuer's performance.	Yes	• Non-executive Directors are consulted as to the matters to be included for discussion at the Board meetings and are provided with opportunities to raise questions or comments at Board meetings. • In relation to each connected transaction or continuing connected transaction of the Company that requires independent shareholders' approval, the independent non-executive Directors will give independent opinion on the transaction. • All the independent non-executive Directors are members of the Audit Committee and the Remuneration Committee; both committees serve the function of scrutinising the Company.
• Directors should ensure that they can give sufficient time and attention to the affairs of the issuer.	Yes	There have been satisfactory attendances in general for Board meetings and Board committees meetings. Please refer to Directors' attendance record of Board meetings and Board committees meetings (see Section A.1).

Compliance of the Code on Corporate Governance Practices *(continued)*

A.5 Responsibilities of directors (continued)

Code Provisions	Compliance	Details of compliance
• Directors must comply with their obligations under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules regarding their securities transactions.	Yes	The Company has adopted the Model Code as the code of conduct regarding securities transaction by the Directors of the Company. Each Director is specifically required to confirm with the Company that he/she has complied with the required standard set out in the Model Code at least twice each year and there has not been any non-compliance by any Director in this respect.
Recommended Best Practice	**Compliance**	**Details of compliance**
• Directors should participate in a programme of continuous professional development.	Yes	In 2005, the Company organized 17 internal training programmes for the Directors and the senior management on various matters relating to corporate governance, leadership and performance management, human resources management, business ethics, enterprise resource planning, project implementation, and workflow and information management. There have been satisfactory attendances in general.
• Directors should disclose to the issuer at the time of his appointment (and on periodic basis) offices held in other organisations and other significant commitments.	Yes	• Details of a Director, including the offices held by such Director in other organisations and other significant commitments are kept by the Company Secretary, and updated at least once a year. Biography of each Director is updated from time to time and confirmed by such Director before being published in the Company's annual report and circulars. • Executive Directors who intend to accept any directorship or appointment in other companies or entities would need to consult and obtain prior approval from the Board before acceptance.
• Non-executive directors should ensure regular attendance of and active participation in board committees, board meetings and general meetings.	Yes	During the year under review, the non-executive Directors have actively participated in Board meetings, Board committees meetings (see Section A.1) and general meetings in general.
• Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.	Yes	During the year under review, the non-executive Directors have satisfactorily discharged their duties.

Compliance of the Code on Corporate Governance Practices *(continued)*

A.6 Supply of and access to information

Code Principle

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as director of an issuer.

Code Provisions	Compliance	Details of compliance
• Agenda and papers for regular board meetings should be sent in full to all directors at least three days before the date of such board meetings.	Yes	Agenda and Board papers are currently sent in full to all Directors at least three days before the date of a regular Board meeting.
• Each director should have separate and independent access to senior management.	Yes	Senior management will meet, formally and informally, with the Directors from time to time and as requested by the Directors.
• Directors are entitled to have access to board papers and related materials and steps must be taken to respond promptly and fully to director queries.	Yes	• Papers relating to Board meetings will be circulated to the Directors who may request for further information. Draft minutes of a Board meeting will be circulated to all the Directors for review and comment prior to the same being finalised. Board minutes will be sent to the Directors for record after the meeting. • Board and committees minutes and papers are available for inspection by Directors and Board committees members. • Each Director will be given the opportunity to raise questions or provide comments at Board meetings or Board committees meetings and his/her questions will be answered at the meeting or promptly thereafter. Comments will be noted and relevant action will be taken (if appropriate) after discussion.

Compliance of the Code on Corporate Governance Practices *(continued)*

B. Remuneration of Directors and Senior Management

B.1 The level and make-up of remuneration and disclosure

Code Principle

An issuer should establish a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration package for all directors. No director should be involved in deciding his own remuneration.

Remuneration Committee

The Remuneration Committee was established on 31 December 2004 and currently consists of the following members:

Mr. Yang Yu	(Executive Director, CEO and chairman of the Remuneration Committee)
Mr. Wang Guangtian	(Independent non-executive Director)
Ms. Yien Yu Yu, Catherine	(Independent non-executive Director)
Mr. Kong Chung Kau	(Independent non-executive Director)

The Remuneration Committee is primarily responsible for the following duties:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;
2. to have the delegated responsibilities to determine the specific remunerations packages of all executive Directors and senior management;
3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
4. to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
6. to make recommendations to the Board on the remuneration for non-executive Directors;
7. to ensure that no Director or any of his associates is involved in deciding his own remuneration;
8. to consult the Chairman and/or the CEO about their proposals relating to the remuneration of executive Directors and have access to professional advice if considered necessary; and
9. to report to the Board.

The Remuneration Committee met once during the year under review considering the remuneration of the Directors and senior management. Attendance record of the Remuneration Committee members is set out in Section A.1 above.

Compliance of the Code on Corporate Governance Practices *(continued)*

B.1 The level and make-up of remuneration and disclosure (continued)

Code Provisions	Compliance	Details of compliance
• Remuneration committee should be established with specific written terms of reference (containing the minimum prescribed details as set out in paragraph B.1.3 of Appendix 14 to the Listing Rules) and should be available on request.	Yes	• The Company has established a Remuneration Committee with terms of reference which meet the requirements as set out in paragraph B.1.3 of Appendix 14 to the Listing Rules. • The terms of reference of the Remuneration Committee are available on request.
• The remuneration committee should consult the chairman and/or chief executive officer regarding proposed remuneration of other executive directors and have access to professional advice if necessary.	Yes	• The terms of reference of the Remuneration Committee provide that the committee should consult the Chairman and/or the CEO about proposed remuneration of other executive Directors. • The Remuneration Committee will consult the Chairman and/or the CEO before making recommendation on remuneration to the Board and will seek independent professional advice as and when necessary.
• The remuneration committee should be provided with sufficient resources to discharge its duties.	Yes	• The terms of reference of the Remuneration Committee provide that members of the Remuneration Committee may seek outside legal and independent professional advice as and when necessary at the costs of the Company. • In addition, the Board and the senior management will give full support to the Remuneration Committee.

Compliance of the Code on Corporate Governance Practices *(continued)*

C. Accountability and Audit

C.1 Financial reporting

Code Principle

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Code Provisions	Compliance	Details of compliance
• Management should provide explanation on financial and other information to enable the board to make informed assessment.	Yes	Directors are provided with general financial information with explanation thereof (if appropriate) of the Group on a regular basis. Moreover, the management also regularly meets with the Directors to present results and discuss any variance between the budget and the actual results (if any).
• Acknowledgement of directors' responsibility for preparing the accounts and a statement by the auditors regarding reporting responsibilities in auditors' report.	Yes	• A statement of Directors' responsibilities for financial statements is set out in the interim and annual reports. • Auditors' reporting responsibilities statement is set out in the auditors' report.
• Board's responsibility to present a balanced, clear and understandable assessment in annual/interim reports, price-sensitive announcements and other financial disclosures/reports under regulatory requirements.	Yes	The Board is collectively responsible for ensuring clear and understandable assessment in annual/interim reports, price-sensitive announcement and other financial disclosures/ reports under regulatory requirements. In addition, the Audit Committee has been established to monitor the integrity of financial statements of the Company.

C.2 Internal controls

Code Principle

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

Code Provisions	Compliance	Details of compliance
• The directors should at least annually conduct a review of the effectiveness of the system of internal control.	Yes	• The Board has conducted a review of the effectiveness of the system of internal control and risk management of the Group covering all material controls including financial, operational and compliance controls, and risk management functions during the year 2005.

Compliance of the Code on Corporate Governance Practices *(continued)*

C.2 Internal controls (continued)

Recommended Best Practice	Compliance	Details of compliance
• Issuers should disclose as part of the Corporate Governance Report a narrative statement how they have complied with the code provisions on internal control during the reporting period.	Yes	• The Board is responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. • In 2004, the Company engaged a business consultancy firm to carry out a review of the effectiveness of the system of internal control and risk management of the Group. Such review was carried out during 2004/2005 covering (inter alia) financial, internal and compliance controls, and risk management procedures of the Group. • During the year under review, the Group established written procedures and an assessment system on assessing the effectiveness of the system of internal control and risk management of the Group. • A designated inspection team has been established to perform the internal control and risk management work of the Group with reference to established procedures and an assessment system. • Reports on each subsidiary of the Group will be produced for consideration. • The designated team will monitor the performance of those subsidiaries with low assessment results and will give advice on measures to be taken by such subsidiaries. • During the year under review, there have not been any significant problems relating to the internal control aspects of the Group.

Compliance of the Code on Corporate Governance Practices *(continued)*

C.3 Audit committee

Code Principle

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee is established with a clear terms of reference.

Audit Committee

The Audit Committee was established on 28 March 2001 and currently consists of the following members:

Mr. Wang Guangtian	(Independent non-executive Director and chairman of the Audit Committee)
Ms. Yien Yu Yu, Catherine	(Independent non-executive Director)
Mr. Kong Chung Kau	(Independent non-executive Director)

The Audit Committee is primarily responsible for the following duties:

1. to make recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
3. to develop and implement policy on the engagement of an external auditor to supply non-audit services; and
4. to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and to review significant financial reporting judgments contained in them.

The Audit Committee met 4 times during the year under review considering the interim and annual results of the Group and discussing with the auditors on the impact on any change of accounting policies, the scope of work regarding the annual audit, interim review and the remuneration of the auditors. Attendance record of the Audit Committee members is set out in Section A.1 above.

Auditors' remuneration

For the year ended 31 December 2005, audit and non-audit services provided to the Group by Deloitte Touche Tohmatsu, the auditors of the Company, and the amounts of remuneration paid and payable in connection therewith are as follows:

Services	**Approximate Amount**
Audit services for the year 2005	
• Audit fee paid – Interim review	HK$487,000
• Audit fee payable – Final results (subject to final agreement with the auditors)	HK$2,250,000
Non-audit services for the year 2005	
• Fee paid for performance of agreed-upon procedures on the Group in connection with the issue of the USD200 million 7.375% bonds due 2012	HK$285,000
• Fee paid for review of connected transactions of the Group, provision of training to the Group and other miscellaneous services	HK$12,000

The Audit Committee is of the view that the auditors' independence was not affected by the provision of the abovementioned non-audit services to the Group.

Compliance of the Code on Corporate Governance Practices *(continued)*

C.3 Audit committee (continued)

Code Provisions	Compliance	Details of compliance
• Minutes should be kept by a duly appointed secretary and should be sent to all committee members within a reasonable time.	Yes	Audit Committee minutes and papers are kept by the Company Secretary. Draft Audit Committee minutes is circulated to all the committee members for review and comment and final version of the minutes will be sent to all the committee members for record, as soon as practicable after the relevant Audit Committee meeting.
• A former partner of the existing auditors should not sit on the Audit Committee.	Yes	None of the Audit Committee members is a former partner of the external auditors of the Group.
• The terms of reference of audit committee should contain the minimum prescribed details in paragraph C.3.3 of Appendix 14 to the Listing Rules and should be made available on request.	Yes	• The Company has established an Audit Committee with terms of reference which meet the requirements as set out in paragraph C.3.3 of Appendix 14 to the Listing Rules. • The terms of reference of the Audit Committee will be available on request.
• Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in the Corporate Governance Report the audit committee's recommendation and the board's view.	Yes	• The Board has not had any disagreement with the Audit Committee on the selection, appointment, resignation or dismissal of external auditors. Should there be such a disagreement, the Board will include the relevant details in its Corporate Governance Report.
• The audit committee should be provided with sufficient resources to discharge its duties.	Yes	• The terms of reference of the Audit Committee provided that the members of the Audit Committee may seek outside legal or other independent professional advice as and when necessary at the costs of the Company. • In addition, the Board and the senior management will give full support to the Audit Committee.

Compliance of the Code on Corporate Governance Practices *(continued)*

D. Delegation by the Board

D.1 Management functions

Code Principle

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

Code Provisions	Compliance	Details of compliance
• The board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the board. • Formalise the functions reserved to the board and those delegated to management.	Yes	The Board has set out in writing clear division of the responsibilities of the Board and the senior management. In general, the Board is responsible for establishing the strategies and direction of the Group, setting objectives and business development plans, monitoring the performance of the senior management, and ensuring good corporate governance. The senior management, which is led by the CEO, is responsible for executing the strategies and plans set by the Board, and reporting to the Board periodically to ensure proper execution.

Recommended Best Practice	Compliance	Details of compliance
• Disclosure of division of responsibility between the board and management to assist those affected by corporate decisions to better understand their respective accountabilities.	Yes	The Company has written internal guidelines setting out the division of responsibilities between the Board and management of the Company. In addition, the Board has made such disclosure to the Directors, the management and other staff by various means including internal circulars and meetings with management and staff.
• Formal letters of appointment for directors setting out the key terms and conditions relative to their appointment so that directors understand the delegation arrangements.	Yes	It is the practice of the Company to enter into a (i) written service contract with each executive Director setting out the rights, obligation, duties, responsibilities and other terms and conditions of his/her appointment, and (ii) a letter of appointment with each non-executive Director confirming the terms of his/her appointment.

Compliance of the Code on Corporate Governance Practices *(continued)*

D.2 Board committees

Code Principle

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Code Provisions	Compliance	Details of compliance
• Clear terms of reference to enable proper discharge of committee functions.	Yes	• The Company currently has three Board committees, being the Audit Committee, the Remuneration Committee and the Convertible Bond Committee, each of which has clear written terms of reference setting out details of the authorities and duties of such committee. • The terms of reference of the abovementioned Board committees will be available on request.
• The terms of reference should require committees to report back to the board their decisions.	Yes	The terms of reference of each of the Board committees contain provisions which require such Board committee to report back to the Board any decision made by it.

E. Communication with Shareholders

E.1 Effective communication

Code Principle

The board should endeavour to maintain an on-going dialogue with shareholders and, in particular, use annual meetings or other general meetings to communicate with shareholders and encourage their participation.

Code Provisions	Compliance	Details of compliance
• A separate resolution should be proposed by the chairman for each substantially separate issue.	Yes	Separate resolutions are proposed at general meeting on each substantially separate issue. For example, a separate resolution will be proposed for each director nominated for election or re-election.
• The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the annual general meeting.	Yes	• In the year under review, the Company held one annual general meeting and one extraordinary general meeting. • The Chairman and two members of the Audit Committee and the Remuneration Committee attended the said annual general meeting in 2005.

Compliance of the Code on Corporate Governance Practices *(continued)*

E.1 Effective communication (continued)

Code Provisions	Compliance	Details of compliance
• The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	Yes	• There was no chairman appointed in respect of the relevant independent Board committee established for advising the shareholders on the continuing connected transaction of the Group and the related annual caps approved at the extraordinary general meeting of the Company held in 2005 ("EGM"). However, a member of the independent Board committee attended the EGM.

E.2 Voting by poll

Code Principle

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.

Code Provisions	Compliance	Details of compliance
• Disclosure in general meeting circulars of procedures and rights of shareholders to demand a poll.	Yes	The rights and the procedure for demanding a poll will be set out in the circular accompanying the notice of general meeting dispatched to shareholders. The poll procedures are also explained to shareholders at general meetings.
• Ensure that votes cast are properly counted and recorded.	Yes	It is the practice of the Company to appoint representatives of the share registrar of the Company as scrutineer for the voting procedure.
• Chairman of meeting should adequately explain the procedure for demanding a poll by shareholders and the poll procedures at the commencement of meeting.	Yes	At each of the annual general meeting and the EGM held in the year under review, the chairman explained the procedure for demanding a poll by shareholders and the poll procedures at the commencement of the meeting.

Additional Corporate Governance Information

I. Shareholders' rights

The Company is committed to ensure shareholders' interest. To this end, the Company communicates with its shareholders through various channels, including annual general meetings, extraordinary general meetings, annual reports, notices of general meetings, circulars sent to shareholders, announcements, press releases and other corporate communications available on the Company's website.

Registered shareholders are notified by post for the shareholders' meetings. Any registered shareholder is entitled to attend annual and extraordinary general meetings of the Company provided that their shares have been fully paid up and recorded in the register of members of the Company. In respect the financial year ended 31st December 2005, an annual general meeting of the Company will be held on 23 May 2006 and it is currently expected that interim results for the six months ended 30 June 2006 will be announced in September 2006.

Pursuant to Article 72 of the Articles of Association of the Company, any two or more members of the Company or any one member of the Company which is a recognised clearing house (or its nominee(s)) may convene a general meeting by depositing at the principal office of the Company in Hong Kong the written requisition specifying the objects of the meeting and signed by the requisitionist(s), provided that such requisitionist(s) hold(s) as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

Shareholders can make enquiries or proposals to the Company by putting their enquiries or proposals to the Company using the contact details listed under the Section headed "Investor relations" below.

II. Investor relations

The Company regards communication with institutional and other investors as an important means to enhance the transparency of the Group and collecting views and feedbacks from such investors. The Group has an Investor Relations department to handle matter relating to investor relations. In the year under review, the executive Directors and senior management of the Company participated in 5 international investors' conferences, as well as 3 international road shows covering Germany, Holland, Hong Kong, Japan, the PRC, Singapore, the UK and the US, to communicate with existing shareholders and the investment community in respect of the Group's latest results, prospects and development strategies. In addition, the Company also maintains regular communication with the media through press conferences, news releases to the media and on the Company's website, and answering enquiries from the media.

Shareholders, investors and the media can make enquiries to the Company through the following means:

Hotline telephone number:	(852) 2528 5666
By fax:	(852) 2865 7204
By post:	Rooms 3101-03, 31/F., Tower 1, Lippo Centre, 89 Queensway, Hong Kong Attention: Mr. Wilson Cheng
By email:	xinao@xinaogas.com

DIRECTORS' REPORT

The Directors have pleasure in submitting to shareholders their annual report and the audited financial statements for the year ended 31 December 2005.

Principal Activities

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

Results and Appropriations

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 74.

The Directors recommend the payment of a final dividend of HK$4.81 cents (equivalent to approximately RMB5.00 cents) per share to the shareholders on the register of members on 23 May 2006. The total dividend amount is approximately RMB45,440,000, and the retention of the remaining profit for the year is approximately RMB257,678,000.

Financial Summary

Details of the summary of the published financial information of the Group for the past seven years are set out on page 19.

Property, Plant and Equipment

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB1,050,645,000 has been incurred in acquiring property, plant and equipment.

During the year, the Group revaluated its properties, resulting in a revaluation deficit amounting to RMB370,000.

Details of the movements during the year in property, plant and equipment of the Group are set out in Notes 14 and 16 to the Financial Statements.

Share Capital and Bonds

Details of movements in the share capital and bonds of the Company are set out in Notes 35 and 37 to the Financial Statements respectively.

Reserves

Details of movements during the year in the reserves of the Group are set out in Consolidated Statement of Changes in Equity on pages 77-78.

Bank and Other Loans

Details of bank and other loans of the Group are set out in Note 34 to the Financial Statements.

Charitable Donations

Charitable donations by the Group for 2005 amounted to RMB698,000 (2004: RMB56,000).

Directors' Emoluments

Details of Directors' emoluments are set out in Note 10 to the Financial Statements.

Directors

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

Executive Directors:

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

Non-executive Director:

Zhao Baoju

Independent non-executive Directors:

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

In accordance with Article 116 of the Company's Articles of Association, Messrs Yang Yu, Chen Jiacheng, Zhao Jinfeng, Yu Jianchao and Cheung Yip Sang retire by rotation and, being eligible, offer themselves for re-election.

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

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

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

As at 31 December 2005, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation (other than statutory compensation).

Disclosure of Interests

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

As at 31 December 2005, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

		Interests in shares						
Name of Director	Capacity	Personal interests	Corporate interests	Family interests	Total interests in shares	Total Interests in underlying shares pursuant to share options	aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	2,594,000 (Note 2)	384,486,000 (Note 1)	–	387,080,000	700,000 (Note 3)	387,780,000	42.88%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	–	384,486,000 (Note 1)	2,594,000 (Note 2)	387,080,000	700,000 (Note 3)	387,780,000	42.88%
Mr. Yang Yu	Beneficial owner	–	–	–	–	1,000,000	1,000,000	0.11%

Notes:

1. The two references to 384,486,000 shares relate to the same block of shares. Such shares are held by Xinao Group International Investment Limited ("XGII"), which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang according to the SFO.
3. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang according to the SFO.

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

Save as disclosed above, as at 31 December 2005, the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

Disclosure of Interests *(continued)*

Directors' rights to acquire shares

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

Name of Director	Date of grant	Exercise period	Exercise price	Number of shares subject to outstanding options as at 1 January 2005	Number of options exercised as at 31 December 2005	Number of shares subject to outstanding options as at 31 December 2005	Approximate percentage of the Company's total issued share capital
Mr. Wang	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,300,000	(1,600,000) (Note 2)	700,000 (Note 3)	0.08%
Ms. Zhao	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,300,000	(1,600,000) (Note 2)	700,000 (Note 3)	0.08%
Mr. Yang Yu	14.02.2003	15.08.2003 – 14.02.2013	2.265	3,350,000	(2,350,000) (Note 2)	1,000,000	0.11%
Mr. Chen Jiacheng	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,300,000	(2,300,000) (Note 2)	–	0%
Mr. Zhao Jinfeng	14.02.2003	15.08.2003 – 14.02.2013	2.265	1,775,000	(1,775,000) (Note 2)	–	0%
Mr. Qiao Limin	14.02.2003	15.08.2003 – 14.02.2013	2.265	1,025,000	(1,025,000) (Note 2)	–	0%
Mr. Jin Yongsheng	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,100,000	(2,100,000) (Note 2)	–	0%
Mr. Yu Jianchao	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,100,000	(2,100,000) (Note 2)	–	0%
Mr. Cheung Yip Sang	14.02.2003	15.08.2003 – 14.02.2013	2.265	1,887,500 (Note 4)	(1,887,500) (Note 2)	–	0%
Mr. Cheng Chak Ngok	14.02.2003	15.08.2003 – 14.02.2013	2.265	450,000	(450,000) (Note 2)	–	0%
Total				17,287,500	(15,587,500)	1,700,000	

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. The weighted average closing price per share immediately before the date on which the options were exercised was HK$4.878.
3. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang according to the SFO.
4. Out of 1,887,500 underlying shares, 125,000 underlying shares were granted to Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang and an employee of the Company. Mr. Cheung Yip Sang is taken to be interested in the underlying shares held by his spouse under the SFO.

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

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

Substantial Shareholders

As at 31 December 2005, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of shareholder	Capacity	Interests in shares: Personal interests	Interests in shares: Corporate interests	Interests in shares: Family interests	Total interests in shares	Total Interests in underlying shares pursuant to share options	aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital
Mr. Wang	Beneficial owner and interest of controlled corporation	2,594,000 (Note 2)	384,486,000 (Note 1)	–	387,080,000	700,000 (Note 3)	387,780,000	42.88%
Ms. Zhao	Interest of spouse and interest of controlled corporation	–	384,486,000 (Note 1)	2,594,000 (Note 2)	387,080,000	700,000 (Note 3)	387,780,000	42.88%
XGII (formerly known as Easywin Enterprises Limited)	Beneficial owner	–	384,486,000 (Note 1)	–	384,486,000	–	384,486,000	42.52%
The Capital Group Companies, Inc.	Investment manager	–	91,587,000	–	91,587,000	–	91,587,000	10.13%
Penta Investment Advisers Ltd.	Investment manager	–	45,589,770 (Note 4)	–	45,589,770	–	45,589,770	5.04%
Mr. Michael William Moore	Interest of controlled corporation	–	45,589,770 (Note 4)	–	45,589,770	–	45,589,770	5.04%
Mr. John Zwaanstra	Interest of controlled corporation	–	45,589,770 (Note 4)	–	45,589,770	–	45,589,770	5.04%
FMR Corp.	Investment manager	–	45,279,000	–	45,279,000	–	45,279,000	5.01%

Notes:

1 The three references to 384,486,000 shares relate to the same block of shares. Such shares are held by XGII, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang according to the SFO.

3. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang according to the SFO.

4. The three references to 45,589,770 shares relate to the same block of shares. Such shares are held by Penta Investment Advisers Ltd., which is beneficially owned as to 50% by Mr. Michael William Moore and 50% by Mr. John Zwaanstra, in the capacity of an investment manager.

Save as disclosed above, as at 31 December 2005, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company. Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2005, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Share Option Scheme

Details of the share option scheme are set out in Note 39 to the Financial Statements and the section headed "Directors' rights to acquire shares" in this report.

No share option was granted, lapsed or cancelled during the year.

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

Directors' and Controlling Shareholders' Interests in Contracts and Connected Transactions

During the year, the Group has entered into the following transactions and arrangements as described below with persons who are "connected" for the purposes of the Listing Rules:

Non-exempt continuing connected transactions

On 31 January 2005, those Wang Family Companies (note 1) being property management companies have entered into an agreement with the Group to provide the Group with property management services to the properties situated in the PRC occupied by the Group.

On 31 January and 1 April 2005, Langfang Xinao Gas Company Limited ("Langfang Xinao"), an indirect wholly-owned subsidiary of the Company, entered into contracts for a term of three months and 2.75 years commencing from 1 January 2005 and 1 April 2005 with Langfang Xinao Property Management Company Limited ("Langfang Property Management") (note 1) and Xinao Group Elephant Club Hotel Company Limited ("Elephant Club") (note 1) respectively, which provide property management services to Langfang Xinao for two office buildings situated in Langfang City with service fees of RMB345,000 for 3 months and RMB879,000 per annum respectively.

On 30 September 2005, Langfang Xinao Gas Equipment Company Limited ("Langfang Equipment"), an indirect wholly-owned subsidiary of the Company, entered into a contract for a term of one year commencing from 1 October 2005 with Elephant Club, which provides property management service to Langfang Equipment's factory and office building situated in Langfang City with an annual service fee RMB120,000.

On 31 January 2005, the Group and the Wang Family Companies entered into an agreement, whereby each of the Group and the Wang Family Companies has agreed to lease to each other certain properties owned by the Group and the Wang Family Companies respectively.

On 31 January 2005, Langfang Xinao leased a staff quarter situated in Langfang City to Langfang Xinao Property Development Company Limited ("Langfang Property") (note 1) and another staff quarter also situated in Langfang City to Xinao Group Company Limited ("XGCL") (note 1) and entered into contracts with each of them for a term of one year commencing from 1 January 2005 with annual rentals of RMB330,000 and RMB436,000 respectively.

On 31 January 2005, Langfang Xinao entered into a property leasing agreement with XGCL in relation to the leasing of the office building situated in Langfang City to XGCL. The annual rental is RMB1,039,000 plus a reimbursement of management fee of RMB264,000 per annum. The contract term is for three years commencing from 1 January 2005.

On 7 February 2005, Xinao Gas Investment Group Limited, a direct wholly-owned subsidiary of the Company, entered into a property leasing agreement with Enric Investment Group Limited ("Enric Investment) (note 1) in relation to the leasing of the office unit situated in Hong Kong to Enric Investment. The annual rental is HK$304,000 (RMB317,000) plus a reimbursement of management fee and other expenses of RMB86,000 in 2005. The contract term is for three years commencing from 1 February 2005.

On 31 January 2005, the Group and the Wang Family Companies entered into an agreement, whereby the Group has agreed to purchase and the Wang Family Companies have agreed to sell, in the ordinary course of its business, gas-related machinery and equipment manufactured by the Wang Family Companies (including but not limited to gas refueling stations, gas refueling daughter station trailers, storage tanks, CNG and LNG trailers and compressors).

Directors' and Controlling Shareholders' Interests in Contracts and Connected Transactions *(continued)*

Non-exempt continuing connected transactions *(continued)*

During the year, the subsidiaries of the Company, including Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), Changsha Xinao Gas Company Limited, Zhuzhou Xinao Gas Company Limited ("Zhuzhou Xinao"), Lianyungang Xinao Gas Company Limited, Luan Xinao Gas Company Limited, Haining Xinao Gas Company Limited ("Haining Xinao"), Haining Xinao Gas Development Company Limited, Xiangtan Xinao Gas Company Limited, Xinao Gas Development Company Limited ("Xinao Gas Development"), Xinao Energy Logistics Company Limited, Bozhou Xinao Gas Company Limited, Beijing Xinao Jinggu Gas Company Limited, Jinhua Xinao Gas Development Company Limited, Chaohu Xinao Gas Development Company Limited, Qingdao Xinao Xincheng Gas Company Limited, Shangqiu Xinao Gas Company Limited, Chuzhou Xinao Gas Company Limited, Changzhou Xinao Gas Engineering Company Limited ("Changzhou Gas Engineering"), Quzhou Xinao Gas Company Limited, Liaocheng Xinao Gas Company Limited, Taixing Xinao Gas Company Limited, Xinghua Xinao Gas Company Limited, Huaian Xinao Gas Company Limited, Zouping Xinao Gas Company Limited, Haian Xinao Gas Company Limited, Laiyang Xinao Gas Company Limited, Yangzhou Xinao Gas Company Limited, Xinao Gas Engineering Company Limited, Zhanjiang Xinao Gas Company Limited ("Zhanjiang Xinao"), Langfang Xinao, Xinxiang Xinao Gas Company Limited ("Xinxiang Xinao") and Tongliao Xinao Gas Company Limited, purchased natural gas track trailers, pressure regulating and gas equipments from Shijiazhuang Enric Gas Machinery Company Limited ("Shijiazhuang Enric") (note 1), Enric (Bengbu) Compressor Company Limited ("Enric Bengbu") (note 1) and Enric (Langfang) Energy Equipment Integration Company Limited ("Enric Langfang") (note 1) in order to operate the distribution of natural gas business. The total considerations of the contracts are RMB118,572,000.

The independent non-executive Directors have reviewed the above transactions and confirmed that, in their opinion:

1. The transactions have been entered into by the Group in the ordinary and usual course of business of the Group;
2. The transactions have been entered into on normal commercial terms, or where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than those available to or from independent third parties; and
3. The transactions have been entered into in accordance with the terms of the agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Directors' and Controlling Shareholders' Interests in Contracts and Connected Transactions *(continued)*

Non-exempt connected transactions

On 10 June 2005, Langfang Equipment has entered into a sales and purchase agreement with XGCL to acquire land and factory complex located in Langfang City, Hebei Province for an aggregate consideration of RMB14,500,000. Details of the transaction were disclosed in the Company's announcement dated 10 June 2005.

On 27 October 2005, Xinao Gas China Investment Limited ("Xinao China BVI"), a wholly-owned subsidiary of the Company and the majority equity interest holder of Shijiazhuang Xinao Gas Company Limited ("Shijiazhuang Xinao"), entered into an agreement with Shijiazhuang Gas Group Company Limited ("Shijiazhuang Gas") (note 2), a minority equity interest holder of Shijiazhuang Xinao, and Hebei Xindi Urban Construction Engineering Company Limited ("Hebei Xindi"), in relation to the registered capital increase, whereby each of the parties agreed to inject capital into Shijiazhuang Xinao. After the completion of the registered capital increase, Xinao China BVI, Shijiazhuang Gas and Hebei Xindi (which holds its 11% equity interest for Xinao (China) Gas Investment Company Limited, a wholly-owned subsidiary of the Company) own 49%, 40% and 11% equity interest of Shijiazhuang Xinao respectively, and the Group have an effective interest of 60% in Shijiazhuang Xinao, which remains a subsidiary of the Company. The transaction is expected to be completed in 2006. Shijiazhuang Xinao was first established in 2002, and after two successful years of operations, the management of Shijiazhuang Xinao decided to initialise the second phase of development, which comprises of, among others, the acquisition of coal gas facilities and operations in Shijiazhuang and conversion of such facilities and operations into natural gas compatible. It was decided that the second phase of development of Shijiazhuang Xinao will be funded by way of increase in its registered capital. Details of the transaction were disclosed in the Company's announcement dated 27 October 2005.

On 23 December 2005, Xinao Gas Development entered into agreements with Langfang Property to acquire residential and office units situated in Langfang City, Hebei Province, for an aggregate consideration of RMB19,149,000. On the same date, Bengbu Xinao entered into agreements with Bengbu Xinao Property Company Limited ("Bengbu Property") (note 1) to acquire residential and office units situated in Bengbu City, Anhui Province, for an aggregate consideration of RMB12,883,000. Details of the transactions were disclosed in the Company's announcement dated 23 December 2005.

Exempted connected transactions

On 6 January 2003, Haining Xinao leased a gas station from Haining City Wantong Gas Company Limited ("Haining Wantong") (note 2), a minority equity interest holder of Haining Xinao, and signed a contract without fixed term with an annual rent of RMB50,000.

During the year, Xinao Gas Development provided gas connection services to Langfang Property, Elephant Club and Beijing City Changping Municipal Economic Development Corporation ("Changping Economic Development") (note 2), a minority equity interest holder of one of the Company's subsidiary, with the contract sum of RMB6,290,000, RMB105,000 and RMB18,000 respectively.

During the year, Beijing Xinao Huading Trading Company Limited, an indirect wholly-owned subsidiary of the Company, sold materials to Langfang Property and XGCL for considerations of RMB57,000 and RMB71,000 respectively.

During the year, Bengbu Xinao sold materials to Xinao Xinneng (Beijing) Technology Company Limited ("Xinneng Beijing") (note 1) for a consideration of RMB20,000.

During the year, Bengbu Xinao purchased materials from Shijiazhuang Chemical Machinery Company Limited ("Shijiazhuang Machinery") (note 1) for a consideration of RMB2,747,000.

During the year, Changzhou Xinao Gas Engineering Company Limited ("Changzhou Gas Engineering"), a subsidiary of the Company, purchased residential and office units situated in Changzhou, Jiangsu Province from Changzhou City Wujin Gas Company Limited ("Wujin Gas") (note 2), the minority equity interest holder of Changzhou Gas Engineering and Changzhou Gas Development, for an aggregate consideration of RMB1,383,000.

During the year, Xinao Gas Development entered into contracts with Langfang Xinao Construction and Installation Engineering Company Limited ("Langfang Construction") (note 1), whereby Langfang Construction has agreed to provide decoration service to buildings located at Langfang with a total service fee of RMB3,118,000.

Directors' and Controlling Shareholders' Interests in Contracts and Connected Transactions *(continued)*

Exempted connected transactions *(continued)*

During the year, Zhuzhou Xinao paid RMB2,000,000 on behalf of Zhuzhou City Urban Construction Investment and Operation Company Limited ("Zhuzhou Construction") (note 2), a minority equity interest holder of Zhuzhou Xinao, to the staff in order to settle the liabilities in relation to the staff retirement benefit and insurance.

During the year, Shantou City Chenghai Gas Construction Company Limited ("Shantou Chenghai"), a minority equity interest holder of Shantou Xinao Gas Company Limited ("Shantou Xinao"), provided gas pipeline construction service of a contract sum of RMB742,000 to Shantou Xinao.

During the year, Zhanjiang City Gas Group Company ("Zhanjiang Gas") (note 2), a minority equity interest holder of Zhanjiang Xinao, leased a gas station and related facilities to Zhanjiang Xinao for a period of three months commencing in October 2004. A lease agreement was signed by both parties for a monthly rent of RMB150,000.

During the year, the Group made a donation of RMB500,000 to Xinao Charity Fund (Note 3).

Notes:

1. Wang Family Companies, including, among others, Langfang Property Management, Elephant Club, Langfang Property, XGCL, Enric Investment, Shijiazhuang Enric, Enric Bengbu, Enric Langfang, Bengbu Property, Xinneng Beijing, Shijiazhuang Machinery and Langfang Construction, are companies controlled (entitled to exercise, or control the exercise of 30% or more of the voting power at the general meeting of the relevant company) by Mr. Wang, the Chairman, an executive Director and an controlling shareholder of the Company, and/or his associates (including Ms. Zhao, an non-executive Director and a controlling shareholder of the Company and the spouse of Mr. Wang), thereby being connected persons of the Company.
2. Shijiazhuang Gas, Changping Economic Development, Wujin Gas, Haining Wantong, Zhuzhou Construction, Shantou Chenghai and Zhanjiang Gas are each a minority equity interest holder of one or more non-wholly-owned subsidiary(ies) of the Company who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of such non wholly-owned subsidiary, thereby being connected persons of the Company.
3. Xinao Charity Fund is a non-profit-making organisation, of which Mr. Wang is the legal representative.
4. Most subsidiaries, jointly-controlled entities and associates of the Company in the PRC, minority equity interest holders and related parties mentioned above have names in Chinese only, and the English names used here are for reference only.

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

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

Post Balance Sheet Events

Details of significant events occurring after the balance sheet date are set out in Note 49 to the Financial Statements.

Convertible Securities, Options, Warrants or Similar Rights

Other than the share options as set out in "Directors' rights to acquire shares" and Note 39 to the Financial Statements, the Company issued five-year convertible bonds ("CB" or "CBs") in an aggregate principal amount of HK$550,000,000 on 15 November 2004. The CBs are zero coupon bonds; the issue price is 100% whereas the redemption price is 106.43%, which means that the effective interest rate is 1.25% per annum. The bondholders have the option to require the Company to redeem the CBs 2.5 years after the issue date. If the bondholders do not exercise the option of redemption, then they have to hold the CBs to maturity or exercise the conversion right during the conversion period. Bondholders can exercise the conversion right between 15 December 2004 and 15 November 2009 and convert the CBs into ordinary shares of HK$0.10 each of the Company, and the Company has the option to issue share or pay cash in lieu of shares to such bondholders. The conversion price for each ordinary share at the issue date of the CBs was HK$5.4375, which is subject to adjustment for events, if any, which may have diluting effects after the issue. If all the CBs are converted into shares, approximately 101,149,425 ordinary shares of the Company will be issued, equivalent to 11.19% of the total issued share capital of the Company as at 31 December 2005. During the year, HK$79,570,000 of CBs was converted into 14,633,560 ordinary shares of the Company, representing 14.5% of the CBs. If all the outstanding CBs are converted into shares, approximately 86,515,862 ordinary shares of the Company will be issued, equivalent to 9.57% of the total issued share capital of the Company as at 31 December 2005.

Other than disclosed above, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2005.

Major Customers and Suppliers

For the year ended 31 December 2005, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively accounted for less than 30% of the Group's total turnover and purchases.

Pre-emptive Rights

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

Purchase, Sale or Redemption of Listed securities

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

Audit Committee

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

Remuneration Committee

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

The Code on Corporate Governance Practices

To the knowledge of the Board, the Company has complied with the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Listing Rules throughout the year, and there have been no material deviations from the code. Details of compliance are set out in the Corporate Governance Report on pages 40 to 61 of the Annual Report.

The Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions.

Public Float

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

Loan Agreements Imposing Specific Performance Obligations on Controlling Shareholders

The Company has entered into a loan agreement which requires Mr. Wang and Ms. Zhao, the controlling shareholders of the Company, to retain his shareholding of the Company not less than 35% of the total issued share capital of the Company throughout the term of the loan agreement, which is 5 years from 18 May 2004. The total amount of the loans involved is US$25,000,000 (equivalent to RMB201,755,000).

Interests in Competitors

During the year, none of the Directors or the management shareholders of the Company or their respective associates had an interest in a business which competes or may compete with the business of the Group.

Auditors

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

On behalf of the Board
WANG Yusuo
Chairman

Hong Kong, 20 April 2006

Deloitte.
德勤

TO THE SHAREHOLDERS OF XINAO GAS HOLDINGS LIMITED
新奧燃气控股有限公司
(incorporated in the Cayman Islands with limited liability)

Introduction

We have audited the consolidated financial statements of Xinao Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") from pages 74 to 144 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 20 April 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Revenue	6	**2,056,826**	1,439,945
Cost of sales		**(1,285,172)**	(850,370)
Gross profit		**771,654**	589,575
Other income	7	**120,271**	47,596
Selling expenses		**(37,392)**	(29,488)
Administrative expenses		**(294,737)**	(230,983)
Other expenses		**(25,592)**	(18,519)
Share of results of associates		**1,136**	(1,226)
Share of results of jointly controlled entities		**20,936**	(1,101)
Finance costs	8	**(127,289)**	(42,746)
Profit before taxation	9	**428,987**	313,108
Taxation	11	**(38,719)**	(9,196)
Profit for the year		**390,268**	303,912
Attributable to:			
Equity holders of the Company		**303,118**	250,648
Minority interests		**87,150**	53,264
		390,268	303,912
Dividends	12		
Paid		**25,254**	–
Proposed		**45,440**	25,254
Earnings per share	13		
Basic		**34.1 cents**	29.6 cents
Diluted		**32.4 cents**	29.0 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	14	3,534,973	2,649,933
Prepaid lease payments	15	269,882	221,717
Investment properties	16	71,602	–
Goodwill	17	147,996	79,552
Exclusive rights of operation	18	14,620	15,147
Negative goodwill	19	–	(4,351)
Interests in associates	20	128,661	61,025
Interests in jointly controlled entities	21	235,432	170,499
Available-for-sale investment	22	2,600	–
Investments in securities	23	–	1,439
Deposit paid for investments		264,602	49,640
		4,670,368	3,244,601
Current assets			
Inventories	24	115,713	106,899
Trade and other receivables	25	579,423	331,355
Prepaid lease payments	15	5,776	5,326
Derivative financial instruments	26	5,504	–
Amounts due from customers for contract work	27	216,286	162,035
Amounts due from associates	28	52,731	15,361
Amounts due from jointly controlled entities	29	40,119	25,092
Amounts due from related companies	30	52,118	51,224
Pledged bank deposits	31	162,963	–
Bank balances and cash	31	1,621,092	911,537
		2,851,725	1,608,829
Current liabilities			
Trade and other payables	32	729,904	482,909
Derivative financial instruments	26	49,662	–
Amounts due to customers for contract work	27	183,078	86,437
Amounts due to associates	28	90,826	13,474
Amounts due to jointly controlled entities	29	4,920	20,575
Amounts due to related companies	33	19,796	8,745
Taxation payable		37,439	6,249
Bank and other loans – due within one year	34	566,457	643,441
		1,682,082	1,261,830
Net current assets		1,169,643	346,999
		5,840,011	3,591,600

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Capital and reserves			
Share capital	35	**95,819**	91,954
Reserves		**2,236,270**	1,830,610
Equity attributable to equity holders of the Company		**2,332,089**	1,922,564
Minority interests		**518,779**	438,288
		2,850,868	2,360,852
Non-current liabilities			
Bank and other loans – due after one year	34	**961,083**	706,155
Convertible bonds	36	**448,933**	514,862
Guaranteed notes	37	**1,570,729**	–
Deferred taxation	38	**8,398**	9,731
		2,989,143	1,230,748
		5,840,011	3,591,600

The financial statements on pages 74 to 144 were approved and authorised for issue by the Board of Directors on 20 April 2006 and are signed on its behalf by:

Wang Yusuo
DIRECTOR

Yu Jianchao
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Attributable to equity holders of the Company											
	Share capital	Share premium	Convertible bond-equity reserve	Special reserve	Goodwill reserve	Statutory reserves	Property revaluation reserve	Translation reserve	Accumulated profits	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004 as originally stated	78,122	579,828	–	1,167	5,590	33,430	40,210	–	399,752	1,138,099	339,447	1,477,546
Effects of HKAS 17	–	–	–	–	–	–	(26,143)	–	(5,235)	(31,378)	(6,800)	(38,178)
As restated	78,122	579,828	–	1,167	5,590	33,430	14,067	–	394,517	1,106,721	332,647	1,439,368
Surplus arising on revaluation of buildings	–	–	–	–	–	–	11,850	–	–	11,850	–	11,850
Deferred taxation liability on revaluation of buildings	–	–	–	–	–	–	(3,323)	–	–	(3,323)	–	(3,323)
Share of valuation surplus by minority shareholders	–	–	–	–	–	–	(1,541)	–	–	(1,541)	1,541	–
Net income recognised directly in equity	–	–	–	–	–	–	6,986	–	–	6,986	1,541	8,527
Profit for the year	–	–	–	–	–	–	–	–	250,648	250,648	53,264	303,912
Total recognised income and expenses for the year	–	–	–	–	–	–	6,986	–	250,648	257,634	54,805	312,439
Issue of shares on placing (note a)	12,932	483,657	–	–	–	–	–	–	–	496,589	–	496,589
Share issue expenses	–	(12,654)	–	–	–	–	–	–	–	(12,654)	–	(12,654)
Issue of shares on exercise of share options (note b)	900	19,478	–	–	–	–	–	–	–	20,378	–	20,378
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	59,852	59,852
Recognition of equity components of convertible bonds	–	–	53,896	–	–	–	–	–	–	53,896	–	53,896
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(3,575)	(3,575)
Acquisition of additional interests from minority shareholders	–	–	–	–	–	–	–	–	–	–	(5,441)	(5,441)
Transfer to statutory reserves (note d)	–	–	–	–	–	10,920	–	–	(10,920)	–	–	–
At 31 December 2004 (restated)	91,954	1,070,309	53,896	1,167	5,590	44,350	21,053	–	634,245	1,922,564	438,288	2,360,852
– adjustment on 1 January 2005	–	–	–	–	(5,590)	–	–	–	2,822	(2,768)	–	(2,768)
At 1 January 2005 (restated)	91,954	1,070,309	53,896	1,167	–	44,350	21,053	–	637,067	1,919,796	438,288	2,358,084

	Attributable to equity holders of the Company											
	Share capital	Share premium	Convertible bond-equity reserve	Special reserve	Goodwill reserve	Statutory reserves	Property revaluation reserve	Translation reserve	Accumulated profits	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deficit arising on revaluation of buildings	–	–	–	–	–	–	(3,428)	–	–	(3,428)	–	(3,428)
Reversal of deferred taxation liability on revaluation of buildings	–	–	–	–	–	–	1,333	–	–	1,333	–	1,333
Share of valuation deficit by minority shareholders	–	–	–	–	–	–	787	–	–	787	(787)	–
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	9,566	–	9,566	–	9,566
Net income recognised directly in equity	–	–	–	–	–	–	(1,308)	9,566	–	8,258	(787)	7,471
Profit for the year	–	–	–	–	–	–	–	–	303,118	303,118	87,150	390,268
Total recognised income and expenses for the year	–	–	–	–	–	–	(1,308)	9,566	303,118	311,376	86,363	397,739
Issue of shares on exercise of share options (note b)	2,343	50,746	–	–	–	–	–	–	–	53,089	–	53,089
Issue of shares on conversion of convertible bonds and transfer from capital reserve to share capital and share premium (note c)	1,522	6,128	(7,797)	–	–	–	–	–	147	–	–	–
Transfer from convertible bonds liability to share premium on conversion of convertible bonds	–	73,082	–	–	–	–	–	–	–	73,082	–	73,082
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	16,428	16,428
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	(550)	(550)
Dividend appropriation	–	–	–	–	–	–	–	–	(25,254)	(25,254)	–	(25,254)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(21,750)	(21,750)
Transfer to statutory reserves (note d)	–	–	–	–	–	26,331	–	–	(26,331)	–	–	–
At 31 December 2005	95,819	1,200,265	46,099	1,167	–	70,681	19,745	9,566	888,747	2,332,089	518,779	2,850,868

Notes:

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

b. On 2 March 2004, 8,100,000 shares were issued in relation to the exercise of share options. The shares were issued at an exercise price of HK$2.265 per share. The market closing price as at that date was HK$4.15.

On 28 February 2005, 10 June 2005 and 22 June 2005, 11,637,500, 6,525,000 and 3,950,000 shares were issued in relation to the exercise of share options respectively. The shares were issued at an exercise price of HK$2.265 per share. The market closing prices as at 28 February 2005, 10 June 2005 and 22 June 2005 were HK$4.325, HK$5.35 and HK$5.4 respectively.

c. In August and October 2005, 10,613,331 and 4,020,229 shares were issued in relation to the conversion of convertible bonds ("CB") to shares by various CB holders respectively. The shares were issued at an conversion price of HK$5.4375 per share. These shares rank pari passu with the existing shares in all respects.

d. In accordance with the People's Republic of China ("PRC") regulations, the statutory reserves retained by the subsidiaries in the PRC are non-distributable.

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Operating activities			
Profit before taxation		428,987	313,108
Adjustments for:			
Share of results of associates		(1,136)	1,226
Share of results of jointly controlled entities		(20,936)	1,101
Loss on disposal of property, plant and equipment		2,557	1,105
Increase in fair value of investment properties		(1,000)	–
Increase in fair value of interest in leasehold land upon transfer to investment properties		(5,801)	–
Deficit on revaluation of property, plant and equipment		370	4,369
Depreciation of property, plant and equipment		110,032	70,329
Allowance for bad and doubtful debts		15,314	1,221
Allowance for inventories		–	6,740
Amortisation of exclusive rights of operation		527	464
Amortisation of goodwill		–	4,439
Amortisation of prepaid lease payments		4,967	3,598
Release of negative goodwill		–	(251)
Interest income		(18,403)	(1,298)
Interest expenses		127,289	42,746
Operating cash flows before movements in working capital		642,767	448,897
Increase in prepaid lease payments		(65,184)	(37,431)
Increase in inventories		(5,095)	(39,541)
Increase in trade and other receivables		(252,636)	(58,425)
Increase in amounts due from customers for contract work		(49,910)	(53,751)
Decrease (increase) in amounts due from associates		(33,370)	(12,181)
Decrease (increase) in amounts due from jointly controlled entities		6,763	(24,827)
Increase in amounts due from related companies		(894)	(31,646)
Increase in trade and other payables		169,615	170,548
Increase (decrease) in amounts due to customers for contract work		82,308	(33,757)
(Decrease) increase in amounts due to jointly controlled entities		(18,407)	19,825
(Decrease) increase in amounts due to associates		(48)	13,474
Increase (decrease) in amounts due to related companies		11,051	(2,361)
Cash generated from operating activities		486,960	358,824
Interest received		18,403	1,298
Interest paid		(84,616)	(48,911)
PRC enterprise income tax paid		(21,783)	(4,268)
Net cash from operating activities		398,964	306,943

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Investing activities			
Purchase of property, plant and equipment		(973,222)	(916,477)
Acquisition of subsidiaries	40	(31,044)	(1,471)
Deposit paid for investments		(214,962)	(49,640)
Investments in jointly controlled entities		(43,997)	(149,495)
Acquisition of associates		(9,500)	(51,857)
Acquisition of exclusive rights of operation		–	(2,800)
Acquisition of additional interests in subsidiaries		–	(4,959)
Investment in available-for-sale investment		(2,600)	–
Investments in securities		–	(439)
Proceeds from disposal of property, plant and equipment		–	1,344
Net cash used in investing activities		(1,275,325)	(1,175,794)
Financing activities			
Proceeds from guaranteed notes issued		1,614,040	–
Notes issue expenses		(46,050)	–
Proceeds from convertible bonds issued		–	583,000
Bonds issue expenses		–	(16,743)
Proceeds from shares issued		53,089	516,967
Shares issue expenses		–	(12,654)
Contribution from minority shareholders		5,843	38,828
Dividends paid to minority shareholders		(21,750)	(3,575)
Dividend paid to shareholders		(25,254)	–
Repayments of advances from minority shareholders		–	(50,234)
Repayment of loans from minority shareholders		–	(25,000)
New bank loans raised		1,440,300	861,754
Repayment of bank loans		(1,264,701)	(599,084)
Amounts advanced from associates		77,400	–
Amounts advanced from jointly controlled entities		2,752	–
Amounts advanced to jointly controlled entities		(21,790)	–
Amount advanced to an associate		(61,000)	–
Increase in pledged bank deposits		(162,963)	–
Amount advanced to a minority shareholder of a subsidiary		(4,000)	–
Net cash from financing activities		1,585,916	1,293,259
Net increase in cash and cash equivalents		709,555	424,408
Cash and cash equivalents at beginning of the year		911,537	487,129
Cash and cash equivalents at end of the year		1,621,092	911,537
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		1,621,092	911,537

1. General

The Company is an exempt company incorporated in the Cayman Islands under the Companies Law and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of its registered office and principal place of business are disclosed in the section headed "Corporate Information" of the Group's Annual Report.

The financial statements are presented in Renminbi, whereas the functional currency of the Company is Hong Kong Dollars as the directors of the Company manage and monitor the performance and financial position of the Group using Renminbi.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 50.

2. Application of Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates/jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

- Business combinations (HKFRS 3);
- Financial instruments (HKAS 32 and HKAS 39); and
- Leases (HKAS 17).

The impact of these changes in accounting policies is discussed below. The impact on basic and diluted earnings per share is discussed in note 2A.

HKFRS 3 Business Combinations

In the current period, the Group has applied HKFRS 3, "Business Combinations", which is for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves (included in goodwill reserve) of RMB1,650,000 has been transferred to the Group's accumulated profits on 1 January 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 January 2005 (of which negative goodwill of RMB7,240,000 (included in goodwill reserve) was previously recorded in reserves and of RMB4,351,000 was previously presented as a deduction from assets), with a corresponding increase to accumulated profits.

2. Application of Hong Kong Financial Reporting Standards *(continued)*

HKAS 32 Financial Instruments: Disclosure and Presentation & HKAS 39 Financial Instruments: Recognition and Measurement

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible bonds

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. Direct issue costs are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds. In subsequent periods, the liability component, including the allocated direct issue costs, is carried at amortised cost using the effective interest method. The principle impact of HKAS 32 on the Group is in relation to convertible bonds issued by the Company that contain both liability and equity components. Previously, convertible bonds were classified as liabilities and recorded at the proceeds received, net of direct issue costs on the balance sheet. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis and charged to the income statement using effective interest method over the period of the bond and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Because HKAS 32 requires retrospective application, comparative figures have been restated. Comparative profit for 2004 has been restated in order to reflect the increase in effective interest on the liability component for the convertible bonds issued in 2004 (see note 2A for the financial impact).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect of classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Until 31 December 2004, the Group classified and measured its investments in securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). In 2004, investment in securities comprise insurance fund and unlisted equity securities were classified as investment securities under SSAP 24. Investment securities were measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary. From 1 January 2005 onwards, the Group classifies and measures insurance fund in accordance with HKAS 39 as loans and receivables.

Derivatives

By 31 December 2004, the cross currency interest rate swap contracts had not been recognised on the balance sheet. The net interest expense or income arisen from the cross currency interest rate swap arrangements is included in net profit or loss for the period on an accrual basis and accounted for as finance costs.

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

The Group has applied the relevant transitional provisions in HKAS 39. For cross currency interest rate swap contracts that are not qualify for hedge accounting, on 1 January 2005, the Group recognised the cross currency interest rate swaps at fair value. The fair value on 1 January 2005 of RMB7,119,000, has been recognised in the Group's accumulated profits (see Note 2A for the financial impact).

2. Application of Hong Kong Financial Reporting Standards *(continued)*

HKAS 17 Leases

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 2A for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

2A Summary of the Effects of the Changes in Accounting Policies

The effects of the changes in the accounting policies described above on the results for the current and prior year are as follows:

	2005 RMB'000	2004 RMB'000
Increase in revaluation deficit	(370)	(4,369)
Decrease in depreciation of property, plant and equipment	13,403	7,549
Amortisation of prepaid lease payments	(4,967)	(3,598)
Decrease in amortisation of goodwill	5,610	–
Decrease in amortisation of goodwill (included in share of results of associates)	362	–
Decrease in release of negative goodwill	(251)	–
Increase in effective interest on the liability component of convertible bonds	(6,861)	(1,194)
Losses arising from changes in fair value of derivative financial instruments	(44,158)	–
Decrease in profit for the year	(37,232)	(1,612)
Attributable to:		
Equity holders of the Company	(34,832)	(1,193)
Minority interests	(2,400)	(419)
	(37,232)	(1,612)
Decrease in basic earnings per share	3.9 cents	0.2 cents
Decrease in diluted earnings per share	3.6 cents	0.2 cents

2A Summary of the Effects of the Changes in Accounting Policies *(continued)*

Analysis of decrease in profit for the year by line items presented according to their function:

	2005 RMB'000	2004 RMB'000
Decrease in cost of sales	**8,436**	3,951
Decrease in other income	**(251)**	–
Decrease in other expenses	**5,240**	(4,369)
Increase in share of results of associates	**362**	–
Decrease in share of results of jointly controlled entities	**(3)**	–
Increase in finance costs	**(51,019)**	(1,194)
Decrease in taxation	**3**	–
	(37,232)	(1,612)

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) RMB'000	Effect of HKAS 1 and HKAS 27 RMB'000	Effect of HKAS 17 RMB'000	Effect of HKAS 32 RMB'000	As at 31 December 2004 (restated) RMB'000	Effect of HKFRS 3 RMB'000	Effect of HKAS 39 RMB'000	As at 1 January 2005 (restated) RMB'000
Balance sheet items								
Property, plant and equipment	2,941,594	–	(291,661)	–	2,649,933	–	–	2,649,933
Negative goodwill	(4,351)	–	–	–	(4,351)	4,351	–	–
Investments in securities	1,439	–	–	–	1,439	–	(1,439)	–
Trade and other receivables	380,995	–	–	(49,640)	331,355	–	1,439	332,794
Deposit paid for investments	–	–	–	49,640	49,640	–	–	49,640
Prepaid lease payments	–	–	227,043	–	227,043	–	–	227,043
Derivative financial instruments	–	–	–	–	–	–	(7,119)	(7,119)
Convertible bonds	(567,564)	–	–	52,702	(514,862)	–	–	(514,862)
Deferred taxation	(24,205)	–	14,474	–	(9,731)	–	–	(9,731)
Total effects on assets and liabilities	2,727,908	–	(50,144)	52,702	2,730,466	4,351	(7,119)	2,727,698
Capital reserve-equity component of convertible bonds	–	–	–	53,896	53,896	–	–	53,896
Goodwill reserve	5,590	–	–	–	5,590	(5,590)	–	–
Property revaluation reserve	57,879	–	(36,826)	–	21,053	–	–	21,053
Accumulated profits	641,089	–	(5,650)	(1,194)	634,245	9,941	(7,119)	637,067
Minority interests	–	445,956	(7,668)	–	438,288	–	–	438,288
Total effects on equity	704,558	445,956	(50,144)	52,702	1,153,072	4,351	(7,119)	1,150,304
Minority interests	445,956	(445,956)	–	–	–	–	–	–

2A Summary of the Effects of the Changes in Accounting Policies *(continued)*

The Group has not early applied the following new standards, amendments, and interpretations that have been issued but are not yet effective:

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

The directors of the Company anticipate that the application of these standards, amendments, or Interpretations will have no material impact on the financial statements of the Group.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the principal accounting policies set out below.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. Significant Accounting Policies *(continued)*

Business combinations

The acquisition of subsidiaries after 1 January 2005 is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those polices.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

The results and assets and liabilities of jointly controlled entities are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any impairment in the value of individual investments. Losses of jointly controlled entities in excess of the Group's interest in that jointly controlled entities (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entities) are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entities recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

3. Significant Accounting Policies *(continued)*

Goodwill

Capitalised goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary, associate or jointly controlled entity at the date of acquisition.

As mentioned in note 2, goodwill previously recognised in reserves has been transferred to the Group's retained earnings at 1 January 2005.

For previously capitalised goodwill arising on acquisitions after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Capitalised goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on the acquisition of a subsidiary, an associate or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Impairment testing on capitalised goodwill

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units expected to benefit from the synergies of the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate and a jointly controlled entity is described under 'Interests in associates' and 'Interests in jointly controlled entities' above.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate or a jointly controlled entity (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate or jointly controlled entity in the period in which the investment is acquired.

As explained in note 2A above, all negative goodwill as at 1 January 2005 has been derecognised with a corresponding adjustment to the Group's accumulated profits.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

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.

3. Significant Accounting Policies *(continued)*

Revenue recognition *(continued)*

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 effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Property, plant and equipment

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

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 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 buildings is credited to the property 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 property revaluation reserve relating to a previous revaluation of that asset. On subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the property revaluation reserve is transferred to accumulated 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:

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 which include capitalised borrowing costs. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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 People's Republic of China (the "PRC"). The exclusive rights of operation is amortised over the respective business operation period.

3. Significant Accounting Policies *(continued)*

Impairment

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

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

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.

Gas connection contracts

When the outcome of a gas connection 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 revenue from gas connection contract is recognised.

When the outcome of a gas connection 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.

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

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

Receivables

Receivables (including trade and other receivables, amounts due from customers for contract work, amounts due from associates, amounts due from jointly controlled entities and amounts due from related companies) are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

3. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Pledged bank deposits

Pledged bank deposits are short-term deposits and are subject to an insignificant risk of changes in value and are measured subsequently at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value and are measured at cost or amortised cost.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Convertible loan notes

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Convertible loan notes that consist of a liability and an equity components are regarded as compound instruments. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loan note into equity of the Group, is included in equity (capital reserve).

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

3. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Payables (other than bank borrowings)

Payables (including trade and other payables, amounts due to customers for contract work, amounts due to associates, amounts due to jointly controlled entities and amounts due to related companies) are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating lease is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

3. Significant Accounting Policies *(continued)*

Foreign currencies *(continued)*

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange difference are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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.

Government grants

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

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

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 PRC.

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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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 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 as the parent or a venturer 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.

4. Key Sources of Estimation Uncertainty

Revenue recognition of gas connection contract

Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the proportion of the contract costs incurred for the work performed to date over the estimated total costs. Accordingly, any changes to the estimated total cost may have material impact on the contract revenue recognised in each accounting period over the contract term.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation charges in the year in which the estimates change.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2005, the carrying amount of goodwill is RMB147,996,000. No impairment loss has been made as the projects of the Group have sufficient cash flows generated from connection fee and gas sales. Details of the recoverable amount calculation are disclosed in Note 17.

Income taxes

As at 31 December 2005, the Group has unused tax losses of RMB149,268,000 available for offset against future profits. No deferred tax asset in relation to unused tax losses has been recognised in the Group's balance sheet due to unpredictability of future profit streams. In cases where there are future profits generated to utilise the tax losses, a material deferred tax assets may arise, which would be recognised in the income statement for the period in which such future profits are recorded.

5. Financial Risk Management Objectives and Policies

The Group's major financial instruments include trade and other receivables, amounts due from related parties, trade and other payables, amounts due to related parties, borrowings, convertible bonds, guaranteed notes and derivatives and amounts due from/to customers for contract works. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies applied by the Group on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain loans and guaranteed notes issued by the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risks

The Group does not have any specific interest rate policy except that the Group would regularly review the market interest rates to capture potential opportunities to reduce the cost of borrowings. Accordingly, the Group enters into interest rate swap arrangement so to hedge the interest rate risks as appropriate.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank and other borrowings and seven years bullet high yield guaranteed notes ("the notes") issued by the Group in 2005 (see Note 34 and 37 for details of these borrowings and notes respectively). In relation to the bonds (see note 36), the Group aims at keeping the bonds at a lower fixed rate in the first two years and at variable rates thereafter. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in fair values of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged notes. These interest rate swaps do not qualify for hedge accounting. The changes in fair value of the interest rate swaps are recognised in the profit and loss as they arise.

5. Financial Risk Management Objectives and Policies *(continued)*

Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank loans (see note 34). In 2004, the Group entered into cross currency interest rate swaps in order to mitigate its exposure associated with fluctuations relating to variability of cash flows. The critical terms of these cross currency interest rate swaps are similar to those of hedged loans. These cross currency interest rate swaps do not qualify for hedge accounting. The changes in the fair value of the cross currency interest rate swaps are recognised in the profit and loss as they arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade and other receivables. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each half-year end date and balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are reputational banks in the PRC and banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

6. Revenue

	2005 RMB'000	2004 RMB'000
Revenue comprises the following:		
Gas connection fees	**1,033,260**	822,697
Sales of piped gas	**767,552**	429,779
Distributions of bottled liquefied petroleum gas	**191,463**	149,185
Sales of gas appliances	**64,551**	38,284
	2,056,826	1,439,945

7. Other Income

	2005 RMB'000	2004 RMB'000
Other income comprises the following:		
Miscellaneous sales	**24,871**	7,120
Incentive subsidies (note a)	**20,546**	8,350
Interest income	**18,403**	1,298
Compensation received (note b)	**13,900**	16,702
Gain on foreign exchange	**11,572**	–
Increase in fair value of interest in leasehold land upon transfer to investment properties	**5,801**	–
Pipeline transmission income	**5,785**	1,440
Income from rented premises under operating leases	**4,145**	3,177
Repair and maintenance income	**3,468**	1,858
Increase in fair value of investment properties	**1,000**	–
Management fee income	**–**	264
Release of negative goodwill	**–**	251
Others	**10,780**	7,136
	120,271	47,596

Notes:

(a) Included in incentive subsidies amounting to RMB9,000,000 (2004: Nil) was granted to 蚌埠新奧燃氣有限公司, a subsidiary of the Company, as an incentive for investing in the region. The remaining represented refunds of various taxes as incentives by the government authorities in various cities of the PRC.

(b) Pursuant to a notice of compensation issued by the relevant government authority in the PRC on 5 January 2004, 長沙新奧燃氣有限公司 ("Changsha Xinao"), a subsidiary of the Company, is entitled to receive compensation annually from the government authority to subsidise its coal gas operation with effect from September 2003. During the year, RMB13,900,000 (2004: RMB16,702,000) was recognised as income.

8. Finance Costs

	2005 RMB'000	2004 RMB'000
Interest on:		
Bank and other loans wholly repayable within five years	**50,591**	40,245
Bank loans not wholly repayable within five years	**34,025**	8,666
Convertible bonds	**16,867**	2,501
Guaranteed notes	**22,373**	–
	123,856	51,412
Less: Amount capitalised	**(33,606)**	(8,666)
	90,250	42,746
Fair value changes on derivatives not qualify for hedge accounting	**37,039**	–
	127,289	42,746

9. Profit before Taxation

	2005 RMB'000	2004 RMB'000
Profit before taxation has been arrived at after (crediting) charging:		
Allowance for bad and doubtful debts	**15,314**	1,221
Allowance for inventories	**–**	6,740
Amortisation of exclusive rights of operation included in other expenses	**527**	464
Amortisation of goodwill included in other expenses	**–**	4,439
Amortisation of prepaid lease payments	**4,967**	3,598
Auditors' remuneration	**3,080**	2,879
Depreciation of property, plant and equipment	**110,032**	70,329
Deficit on revaluation of property, plant and equipment	**370**	4,369
Loss on disposal of property, plant and equipment	**2,557**	1,105
Minimum lease payments under operating leases in respect of land and buildings	**8,550**	6,442
Research and development expenses	**485**	4,163
Staff costs	**193,964**	155,896
Less: Amount capitalised under construction in progress	**(13,747)**	(21,066)
	180,217	134,830

10. Remuneration of Directors and Employees

(a) Directors' emoluments

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

Name of Directors	2005 Fee RMB'000	Salaries and allowance RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Wang Yusuo	–	1,365	–	1,365
Yang Yu	–	840	–	840
Chen Jiacheng	–	72	44	116
Zhao Jinfeng	–	420	25	445
Qiao Limin	–	420	–	420
Jin Yongsheng	–	525	25	550
Yu Jianchao	–	420	–	420
Cheung Yip Sang	–	420	25	445
Cheng Chak Ngok	–	546	13	559
Zhao Baoju	63	–	–	63
Wang Guangtian	63	–	–	63
Yien Yu Yu, Catherine	126	–	–	126
Kong Chung Kau	95	–	–	95
	347	5,028	132	5,507

Name of Directors	2004 Fee RMB'000	Salaries and allowance RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Wang Yusuo	–	1,378	–	1,378
Yang Yu	–	848	–	848
Chen Jiacheng	–	94	19	113
Zhao Jinfeng	–	424	19	443
Qiao Limin	–	424	–	424
Jin Yongsheng	–	530	19	549
Yu Jianchao	–	424	–	424
Cheung Yip Sang	–	424	19	443
Cheng Chak Ngok	–	551	13	564
Zhao Baoju	64	–	–	64
Wang Guangtian	64	–	–	64
Xu Liang	64	–	–	64
Yien Yu Yu, Catherine	32	–	–	32
	224	5,097	89	5,410

10. Remuneration of Directors and Employees *(continued)*

(a) Directors' emoluments *(continued)*

The amounts disclosed above include directors' fees of RMB284,000 (2004: RMB160,000) payable to independent non-executive directors. None of the directors waived any emoluments during the year.

(b) Five highest paid individuals

The five highest paid individuals in the Group in 2005 were all directors of the Company and details of their emoluments are included in note (a) above. In 2004, of the five individuals with the highest emoluments in the Group, four were directors of the Company whose emoluments are disclosed in note (a) above. The emoluments of the remaining one were as follows:

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

11. Taxation

	2005 RMB'000	2004 RMB'000
Current tax	**43,125**	8,510
(Over) under provision in prior years	**(4,406)**	686
	38,719	9,196

The charge represents PRC enterprise income tax for the year.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group 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.

Tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2005 RMB'000	2004 RMB'000
Profit before taxation	**428,987**	313,108
Tax at the PRC enterprise income tax rate of 33%	**141,566**	103,326
Tax effect of share of results of associates	**(375)**	405
Tax effect of share of results of jointly controlled entities	**(6,909)**	363
Tax effect of expenses not deductible for tax purpose	**58,067**	21,077
Tax effect of income not taxable for tax purpose	**(14,353)**	(6,122)
Tax effect of tax losses not recognised	**23,428**	16,125
Utilisation of tax losses previously not recognised	**(2,296)**	(640)
(Over)under provision in respect of prior year	**(4,406)**	686
Effect of tax concession granted to PRC subsidiaries	**(139,668)**	(111,543)
Effect of different tax rates of subsidiaries	**(16,335)**	(14,481)
Tax charge for the year	**38,719**	9,196

In addition to the tax charged to consolidated income statement, a deferred tax credit of RMB1,333,000 (2004: deferred tax charge of RMB3,323,000) has been recognised in equity in the year (see note 38).

12. Dividends

	2005 RMB'000	2004 RMB'000
Final dividend paid in respect of 2004 of HKD2.71 cents (in respect of 2003: Nil) per share (equivalent to approximately RMB2.87 cents per share)	**25,254**	–
Final dividend, proposed in respect of 2005 of HKD4.81 cents (2004: HKD2.71 cents) per share (equivalent to approximately RMB5.00 cents per share) (2004: RMB2.87 cents per share))	**45,440**	25,254

The final dividend in respect of 2005 of HKD4.81 cents (2004: HKD2.71 cents) (equivalent to approximately RMB5.00 cents (2004: RMB2.87 cents)) per share on 908,371,488 shares (2004: 879,125,000 shares) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

13. Earnings per Share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2005 RMB'000	2004 RMB'000
Earnings		
Earnings for the purposes of basic earnings per share	**303,118**	250,648
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**16,867**	2,501
Earnings for the purposes of diluted earnings per share	**319,985**	253,149

	2005 Number of shares	2004 Number of shares
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**888,491,000**	848,096,000
Effect of dilutive potential ordinary shares:		
– share options	**4,177,000**	10,961,000
– convertible bonds	**95,687,000**	12,989,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**988,355,000**	872,046,000

14. Property, Plant and Equipment

	Buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
THE GROUP							
COST/VALUATION							
At 1 January 2004	192,874	1,043,182	98,064	60,331	23,592	444,862	1,862,905
Acquisition of subsidiaries	1,098	8,864	66	268	–	3,508	13,804
Additions	14,669	56,208	34,313	19,903	10,298	788,847	924,238
Reclassification	80,783	390,228	15,297	432	4,765	(491,505)	–
Disposals	(195)	(273)	(2,703)	(5,172)	(408)	–	(8,751)
Surplus on valuation	(1,611)	–	–	–	–	–	(1,611)
At 1 January 2005 – as restated	287,618	1,498,209	145,037	75,762	38,247	745,712	2,790,585
Acquisition of subsidiaries	9,026	5,790	4,963	891	349	3,005	24,024
Additions	2,212	16,352	488	85,374	18,651	903,544	1,026,621
Reclassification	22,515	809,021	9,229	540	–	(841,305)	–
Transfer to investment properties	(49,218)	–	–	–	–	–	(49,218)
Disposals	(560)	(2,256)	(2,120)	(4,883)	(368)	–	(10,187)
Net deficit on valuation	(13,972)	–	–	–	–	–	(13,972)
At 31 December 2005	257,621	2,327,116	157,597	157,684	56,879	810,956	3,767,853
Comprising:							
At cost	–	2,327,116	157,597	157,684	56,879	810,956	3,510,232
At valuation 2005	257,621	–	–	–	–	–	257,621
	257,621	2,327,116	157,597	157,684	56,879	810,956	3,767,853
DEPRECIATION AND AMORTISATION							
At 1 January 2004	–	56,071	9,075	15,954	4,617	–	85,717
Provided for the year	9,092	37,486	9,257	10,941	3,553	–	70,329
Eliminated on disposals	–	(65)	(1,678)	(4,383)	(176)	–	(6,302)
Eliminated on valuation	(9,092)	–	–	–	–	–	(9,092)
At 1 January 2005	–	93,492	16,654	22,512	7,994	–	140,652
Provided for the year	10,203	57,454	21,389	15,562	5,424	–	110,032
Eliminated on disposals	(29)	(1,856)	(1,299)	(4,209)	(237)	–	(7,630)
Eliminated on valuation	(10,174)	–	–	–	–	–	(10,174)
At 31 December 2005	–	149,090	36,744	33,865	13,181	–	232,880
NET BOOK VALUES							
At 31 December 2005	257,621	2,178,026	120,853	123,819	43,698	810,956	3,534,973
At 31 December 2004	287,618	1,404,717	128,383	53,250	30,253	745,712	2,649,933

14. Property, Plant and Equipment *(continued)*

At the balance sheet date, the Group is in the process of obtaining title deed from certain joint venture partners for its buildings in the PRC amounting to approximately RMB60,713,000 (2004: RMB23,444,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

The Group revalued its buildings as at 31 December 2005, resulting in a revaluation deficit of RMB3,798,000 (2004: revaluation surplus of RMB7,481,000), of which RMB3,428,000 (2004: RMB11,850,000 credited) has been debited to the revaluation reserve and RMB370,000 (2004: RMB4,369,000 credited) has been debited to consolidated income statement. The valuation was carried out by Chesterton Petty Limited, independent qualified professional valuers not connected with the Group, on an open market value basis. Chesterton Petty Limited are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in relevant locations. The valuation, which conforms to the Hong Kong Institute of Surveyors Valuation Standards on Properties and the Appraisal and Valuation Standards of the Royal Institute of Chartered Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties. At 31 December 2005, the carrying value of these revalued buildings amounted to RMB257,621,000 (2004: RMB287,618,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation of RMB226,904,000 (2004: RMB253,474,000).

Included in construction in progress is interest capitalised of approximately RMB33,606,000 (2004: RMB8,666,000).

15. Prepaid Lease Payments

The Group's prepaid lease payments comprises:

	2005 RMB'000	2004 RMB'000
Land in Hong Kong under long leases	**16,236**	16,587
Land in PRC under medium term land use rights	**259,422**	210,456
	275,658	227,043
Analysed for reporting purposes as:		
Non-current portion	**269,882**	221,717
Current portion	**5,776**	5,326
	275,658	227,043

At the balance sheet date, the Group is in the process of obtaining land use right certificates from certain joint venture partners for the land in the PRC amounting to approximately RMB7,997,000 (2004: RMB52,708,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the land use right certificates for the land in the PRC.

16. Investment Properties

	RMB'000
FAIR VALUE	
At 1 January 2005	–
Transfer from property, plant and equipment	49,218
Transfer from prepaid lease payments	21,384
Surplus on revaluation recognised in the income statement	1,000
At 31 December 2005	71,602

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. At 31 December 2005, the carrying amount of such property interests amounted to RMB71,602,000 (2004: Nil).

	RMB'000
The carrying value of investment properties shown above comprises:	
Land in Hong Kong under long lease	12,389
Land in PRC under medium term lease	59,213
At 31 December 2005	71,602

The fair value of the Group's investment properties at 31 December 2005 has been arrived at on the basis of a valuation carried out on that date by Chesterton Petty Limited, independent qualified professional valuers not connected with the Group on an open market value basis. Chesterton Petty Limited are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in relevant locations. The valuation, which conforms to the Hong Kong Institute of Surveyors Valuation Standards on Properties and Appraisal and Valuation Standards of the Royal Institute of Chartered Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

The Group has pledged certain of its investment properties amounting to RMB27,604,000 to secure general banking facilities and mortgage loan granted to the Group.

The property rental income earned by the Group from its investment properties, all of which is leased out under operating leases, amounted to RMB4,145,000.

17. Goodwill

	RMB'000
COST	
At 1 January 2004	70,351
Arising on:	
acquisition of a subsidiary	98
acquisition of business (note a and note 38)	600
adjustments to fair values of assets acquired in prior periods (note b)	17,775
At 1 January 2005	88,824
Eliminated of amortisation accumulated prior to the adoption of HKFRS 3 (see note 3)	(9,272)
Arising on:	
acquisition of subsidiaries (note 40)	58,877
acquisition of business (note a and note 41)	9,567
At 31 December 2005	147,996
AMORTISATION	
At 1 January 2004	4,833
Charge for the year	4,439
At 1 January 2005	9,272
Eliminated of amortisation accumulated prior to the adoption of HKFRS 3 (see note 3)	(9,272)
At 31 December 2005	–
CARRYING VALUES	
At 31 December 2005	147,996
At 31 December 2004	79,552

17. Goodwill *(continued)*

Notes:

(a) In 2005, 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 RMB9,567,000 (2004: RMB600,000), 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.

(b) During 2004, adjustments were made to the carrying amount of the identifiable assets and liabilities of Jinhua Xinao Gas Company Limited ("Jinhua Xinao") acquired in December 2003. A valuation report received in the current year indicated that the fair value of the property, plant and equipment of Jinhua Xinao at the date of acquisition was RMB14,059,000 less than the original estimate, and the remaining amount of RMB3,716,000 represented the adjustments of fair value for the property, plant and equipment of certain subsidiaries acquired in 2003. Consequently, the goodwill arising on acquisition should have been increased by an equivalent amount. If the adjusted fair value for property, plant and equipment had been incorporated from the date of acquisition, the profit for 2003 would have been decreased by an increase in the amortisation charge in respect of goodwill of RMB59,000. These effects have been included in the income statement in 2004.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The management considers each subsidiary represents a separate CGU for the purpose of goodwill impairment testing. At the balance sheet date, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of Lianyungang Xinao Gas Development Company Limited, Jinhua Xinao Gas Company Limited, Kaifeng Xinao Gas Company Limited, Changsha Xinsha Xinao Gas Company Limited, Hangzhou Xiaoshan Piped Gas Development Company Limited and other subsidiaries of RMB17,628,000, RMB13,626,000, RMB15,833,000, RMB12,497,000, RMB38,816,000 and RMB49,596,000, respectively.

The recoverable amounts of the cash generating units (the "CGUs") are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling price and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent 15 years financial budgets approved by management on an estimated growth pattern at growth rates between 2.34% to 12.45% at discount rate of 10%. The financial budgets and growth rates are estimated according to the stage of each operation with reference to the development curve of the natural gas industry in the PRC region. This pattern is consistent with the track record of the Group's projects.

18. Exclusive Rights of Operation

	RMB'000
COST	
At 1 January 2004	13,000
Addition (note a)	2,800
At 1 January 2005 and at 31 December 2005	15,800
AMORTISATION	
At 1 January 2004	189
Charge for the year	464
At 1 January 2005	653
Charge for the year	527
At 31 December 2005	1,180
CARRYING VALUES	
At 31 December 2005	14,620
At 31 December 2004	15,147

Notes:

(a) The addition during 2004 arose from the acquisition of exclusive rights to operate in gas pipeline infrastructure and provision of piped gas in Wenzhou City in the PRC, for a period of 30 years.

(b) All of the exclusive rights of operation is amortised on a straight-line method over the operation period of 30 years.

19. Negative Goodwill

	RMB'000
COST	
At 1 January 2004	4,538
Arising on acquisition of additional interests in subsidiaries during the year	482
At 31 December 2004	5,020
RELEASED TO INCOME	
At 1 January 2004	418
Released in the year	251
At 31 December 2004	669
At 31 December 2004	4,351
Derecognised upon the application of HKFRS 3	(4,351)
At 1 January 2005 and at 31 December 2005	–

As explained in note 3, all negative goodwill arising on acquisitions prior to 1 January 2005 was derecognised as a result of the application of HKFRS 3.

20. Interests in Associates

	2005 RMB'000	2004 RMB'000
Cost of unlisted investment	**71,846**	62,346
Share of post-acquisition losses	**(185)**	(1,321)
	71,661	61,025
Amount due from an associate	**57,000**	–
	128,661	61,025

Amount due from an associate is unsecured, interest bearing at 6.12% per annum and repayable in 2008.

The directors consider that the carrying amount of amount due from an associate approximates the fair value.

Details of the Group's associates as at 31 December 2005 are as follows:

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group	Principal activities
鹽城常建燃氣有限公司 ("Yancheng Changjian Gas Company Limited")	Incorporated	The PRC	45%	Sales of piped gas
東莞新奧莞樟燃氣有限公司 ("Dongguan Xinao Guanzhang Gas Company Limited")	Incorporated	The PRC	47%	Investment in gas pipeline infrastructure and sales of piped gas
北海新奧燃氣有限公司 ("Beihai Xinao Gas Company Limited")	Incorporated	The PRC	68% (Note)	Production and sales of liquefied natural gas and compressed natural gas ("CNG"); design and installation of piped gas facilities; production, sales and repair of gas equipment and appliances
東莞長安新奧燃氣有限公司 ("Dongguan Changan Xinao Gas Company Limited")	Incorporated	The PRC	43.62%	Investment in gas pipeline infrastructure and sales of piped gas
山東魯新天然氣有限公司 ("Shandong Luxin Natural Gas Company Limited")	Incorporated	The PRC	30%	Investment in gas pipeline infrastructure and sales of piped gas

Note: The Group holds direct interest of 38% and indirect effective interest of 30% through another jointly controlled entity in the registered capital of Beihai Xinao Gas Company Limited. That other party holds 62% interest and controls the composition of the board of directors of Beihai Xinao Gas Company Limited and therefore, the Group does not have control. The directors of the Company consider that the Group exercises significant influence over Beihai Xinao Gas Company Limited and it is therefore classified as an associate of the Group.

Included in the cost of investment in associates is goodwill of RMB6,797,000 (2004: RMB6,797,000) arising on acquisition of associates in prior years. The movement of goodwill is set out below.

20. Interests in Associates *(continued)*

	RMB'000
COST	
At 1 January 2004 and at 31 December 2004	7,250
Elimination of accumulated amortisation upon the application of HKFRS 3 (see note 3)	(453)
At 31 December 2005	6,797
AMORTISATION	
At 1 January 2004	91
Charge for the year	362
At 31 December 2004	453
Elimination of accumulated amortisation upon the application of HKFRS 3 (see note 3)	(453)
At 31 December 2005	–
CARRYING VALUES	
At 31 December 2005	6,797
At 31 December 2004	6,797

At the balance sheet date, the carrying amount of goodwill represents goodwill arising on the acquisition of Yancheng Changjian Gas Company Limited.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of investment in associates are determined from value in use calculations. The value in use of the investment represents the Group's share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment.

The Group prepares cash flow forecasts derived from the most recent 15 years financial budgets approved by management of the associate on an estimated growth pattern at growth rate of 5.51% at discount rate of 10%. The financial budgets and growth rates are estimated according to the stage of each operation with reference to the development curve of the natural gas industry in the PRC region. This pattern is consistent with the track record of the Group's projects.

The summarised financial information in respect of the Group's associates is set out below:

	2005 RMB'000	2004 RMB'000
Total assets	**399,654**	287,606
Total liabilities	**(224,444)**	(138,062)
Net assets	**175,210**	149,544
Group's share of net assets of associates	**64,864**	54,228
Goodwill on acquisition of an associate	**6,797**	6,797
	71,661	61,025
Revenue	**26,409**	3,785
Profit (loss) for the year	**4,679**	(2,664)
Group's share of results of associates for the year	**1,136**	(1,226)

21. Interests in Jointly Controlled Entities

	2005 RMB'000	2004 RMB'000
Cost of unlisted investments	**217,897**	173,900
Shares of post-acquisition profits	**17,535**	(3,401)
	235,432	170,499

Details of the Group's jointly controlled entities as at 31 December 2005 are as follows:

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

Included in the cost of investments in jointly controlled entities is goodwill of RMB7,644,000 (2004: Nil) arising on acquisition of an jointly controlled entity in current year.

At the balance sheet date, the carrying amount of goodwill represents goodwill arising on the acquisition of Yantai Xinao Gas Development Company Limited.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of investment in jointly controlled entities are determined from value in use calculations. The value in use of the investment represents the Group's share of the present value of the estimated future cash flows expected to be generated by the jointly controlled entities, including the cash flows from the operations of the jointly controlled entities and the proceeds on the ultimate disposal of the investment.

21. Interests in Jointly Controlled Entities *(continued)*

The Group prepares cash flow forecasts derived from the most recent 15 years financial budgets approved by management of the jointly controlled entities on an estimated growth pattern at growth rate of 5.24% at discount rate of 10%. The financial budgets and growth rates are estimated according to the stage of each operation with reference to the development curve of the natural gas industry in the PRC region. This pattern is consistent with the track record of the Group's projects.

The summarised financial information in respect of the Group's jointly controlled entities is set out below:

	2005 RMB'000	2004 RMB'000
Current assets	**412,100**	331,428
Non-current assets	**870,099**	250,262
Current liabilities	**308,594**	106,260
Non-current liabilities	**463,980**	180,000
Income	**255,936**	30,233
Expenses	**215,201**	35,109

22. Available-for-sale Investment

	2005 RMB'000	2004 RMB'000
Unlisted equity securities	**2,600**	–

The above unlisted investment represents investment in unlisted equity securities issued by a private entity incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

23. Investments in Securities

Investment securities as at 31 December 2004 are set out below. Upon the application of HKAS 39 on 1 January 2005, investment securities were reclassified to appropriate categories under HKAS 39 (see note 2A for details).

	RMB'000
Investment securities	
Insurance fund	1,000
Unlisted equity securities	439
	1,439

The insurance fund was maintained with an insurance company. The fund earned 2.5% investment income per annum.

24. Inventories

	2005 RMB'000	2004 RMB'000
Construction materials	**54,152**	58,468
Gas appliances	**34,686**	23,503
Piped gas	**9,004**	8,109
Bottled liquefied petroleum gas	**8,825**	7,997
Spare parts and consumable	**9,046**	8,822
	115,713	106,899

The cost of inventories recognised as an expense during the year was RMB994,371,000 (2004: RMB730,663,000).

25. Trade and Other Receivables

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

	2005 RMB'000	2004 RMB'000
The following is an aged analysis of trade receivable:		
0 – 3 months	**179,424**	170,664
4 – 6 months	**32,788**	37,398
7 – 9 months	**53,359**	28,906
10 – 12 months	**18,287**	9,370
More than 1 year	**3,618**	–
Trade receivable	**287,476**	246,338
Prepayments, deposits and other receivables	**291,947**	85,017
	579,423	331,355

Included under trade receivables are retentions held by customers for contract work amounted to RMB2,090,000 (2004: Nil).

The directors consider that the carrying amount of trade and other receivables approximates their fair values.

26. Derivative Financial Instruments

	31.12.2005	
	Assets RMB'000	Liabilities RMB'000
Cross currency interest rate swap not qualify for hedge accounting	5,504	–
Interest rate swaps not qualify for hedge accounting	–	49,662
	5,504	49,662

Major terms of the cross currency interest rate swap are as follows:

Notional amount	Maturity	Swaps
USD30,000,000	22 August 2006	From LIBOR to 2%*

* Subject to the cross currency rate at USD1 = RMB8.277

Major terms of the interest rate swap are as follows:

Notional amount	Maturity	Swaps
USD100,000,000	5 August 2012	From 7.375%* to LIBOR
USD100,000,000	5 August 2012	From 7.375%* to LIBOR*

* Subject to the spread of 10-year minus 2-year USD swap rate

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the quotations provided by the relevant financial institutions at the balance sheet date.

27. Amounts Due from (to) Customers for Contract Work

	2005 RMB'000	2004 RMB'000
Contract costs incurred plus recognised profits	488,712	324,011
Less: Progress billings	(455,504)	(248,413)
	33,208	75,598
Analysed for reporting purposes as:		
Amounts due from customers for contract work	216,286	162,035
Amounts due to customers for contract work	(183,078)	(86,437)
	33,208	75,598

28. Amounts Due from/to Associates

The balances are unsecured, interest free and repayable on demand. The fair value of amounts due from/to associates approximate to their carrying value.

29. Amounts Due from/to Jointly Controlled Entities

The balances are unsecured, interest free and repayable on demand. The fair value of amounts due from/to jointly controlled entities approximate to their carrying value.

30. Amounts Due from Related Companies

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

Name of company	Balance at 31.12.2005 RMB'000	Balance at 1.1.2005 RMB'000	Maximum amount outstanding during 2005 RMB'000
石家莊燃氣集團有限公司* ("Shijiazhuang Gas Group Company Limited")*	4,000	–	4,000
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")	3,015	16,147	16,147
廊坊新奧房地產開發有限公司 ("Langfang Xinao Property Development Company Limited")	2,040	14,308	14,308
廊坊新奧物業管理有限公司 ("Langfang Xinao Property Management Company Limited")	3,780	7,127	7,127
安瑞科(蚌埠)壓縮機有限公司 ("Enric (Bengbu) Compressor Company Limited")	9,853	4,744	9,853
湛江市燃氣集團公司* ("Zhanjiang City Gas Group Company")*	2,907	2,392	2,907
廊坊新奧建築安裝工程有限公司 ("Langfang Xinao Construction and Installation Engineering Company Limited")	2,119	–	2,119
石家莊安瑞科氣體機械有限公司 ("Shijiazhuang Enric Gas Equipment Company Limited")	2,971	2,300	2,971
萊陽市煤氣公司* ("Laiyang City Coal Gas Company")*	1,569	1,535	1,569
新鄉市燃氣總公司* ("Xinxiang City Gas Corporation)*	1,103	704	1,103
新奧集團艾力楓社酒店有限公司 ("Langfang Xinao Hotel Management Company Limited")	1,994	649	1,994
連雲港科普置業公司* ("Lianyungang Kepu Property Company)*	–	550	550
新奧集團股份有限公司 ("Xinao Group Company Limited")	14,022	449	14,022
汕頭經濟特區化工石油氣總公司* ("Shantou Special Economic Zone Petrochemical LPG Corporation")*	332	–	332
廊坊新奧置業有限公司 ("Langfang Xinao Property Company Limited")	–	160	160
株洲市城市建設投資經營有限公司* ("Zhuzhou City Urban Construction Investment and Operation Company Limited")*	2,000	–	2,000
蘭溪東昇能源有限公司* ("Lanxi Dongsheng Energy Company Limited")*	114	88	114
北京市昌平市政經濟發展總公司* ("Beijing City Changping Municipal Economic Development Corporation")*	43	43	43
新奧集團國際經濟發展有限公司 ("Xinao Group International Economic Development Company Limited")	28	28	28
常州市武進燃氣有限公司* ("Changzhou City Wujin Gas Company Limited")*	157	–	157
新奧新能(北京)科技有限公司 ("Xinao Xinneng (Beijing) Technology Company Limited")*	20	–	20
安瑞科投資集團公司 ("Enric Investment Group Limited")	51	–	221
	52,118	51,224	

* Minority shareholders of subsidiaries

30. Amounts Due from Related Companies *(continued)*

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

The following is an aged analysis of amounts due from related companies:

	2005 RMB'000	2004 RMB'000
0 – 3 months	**34,066**	23,596
4 – 6 months	**4,219**	4,395
7 – 9 months	**2,118**	12,700
10 – 12 months	**4,423**	6,881
More than 1 year	**7,292**	3,652
Amounts due from related companies	**52,118**	51,224

The amounts are unsecured, interest free and repayable on demand. The directors consider that the carrying amount of amounts due from related companies approximates their fair value.

31. Pledged Bank Deposits/Bank Balances and Cash

Pledged bank deposits and bank balances and cash comprise short-term bank deposits at prevailing market interest rates and short-term bank deposits at fixed interest rates ranging from 1.71% to 4.125%. The directors consider that the carrying amount of pledged bank deposits, bank balances and cash approximate their fair value.

32. Trade and Other Payables

	2005 RMB'000	2004 RMB'000
The following is an aged analysis of trade payable:		
0 – 3 months	**213,772**	161,640
4 – 6 months	**64,340**	33,759
7 – 9 months	**17,364**	20,175
10 – 12 months	**16,378**	8,731
More than 1 year	**35,838**	28,155
Trade payable	**347,692**	252,460
Advances received from customers	**216,381**	108,925
Accrued charges and other payables	**165,831**	121,524
	729,904	482,909

The directors consider that the carrying amount of trade and other payables approximates their fair value.

33. Amounts due to Related Companies

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

	2005 RMB'000	2004 RMB'000
石家莊安瑞科氣體機械有限公司 ("Shijiazhuang Enric Gas Equipment Company Limited")	**12,994**	–
安瑞科(蚌埠)壓縮機有限公司 ("Enric (Bengbu) Compressor Company Ltd.")	**2,437**	809
廊坊新奧房地產開發有限公司 ("Langfang Xinao Property Development Company Limited")	**957**	9
安瑞科(廊坊)能源裝備集成有限公司 ("Enric Equipment Integration Company Limited")	**840**	–
新奧集團石家莊化工機械股份有限公司 ("Xinao Group Shijiazhaung Chemical Machinery Company Limited")	**647**	–
汕頭市澄海燃氣建設有限公司* ("Shantou City Chenghai Gas Construction Company Limited")*	**411**	–
株洲市城市建設投資經營有限公司* ("Zhuzhou City Urban Construction Investment and Operation Company Limited")	**–**	4,182
常州市武進燃氣有限公司* ("Changzhou City Wujin Gas Company Limited")*	**14**	1,461
通遼市日新天然氣有限責任公司* ("Tongliao City Rixin Natural Gas Company Limited")*	**–**	970
湛江市燃氣集團公司 ("Zhaijiang City Gas Group Company")*	**–**	752
北京新奧廣廈房地產開發有限公司 ("Beijing Xinao Guangxia Property Development Company Limited")	**290**	290
桂林旅遊股份有限公司* ("Guilin Travel Company Limited")*	**–**	201
海寧市民泰煤氣有限責任公司* ("Haining City Mintai Coal Gas Company Limited")*	**63**	63
蚌埠新奧置業有限公司 ("Bengbu Xinao Property Company Ltd")	**650**	8
淮安市燃氣總公司 ("Huaian City Gas Corporation")	**158**	–
聊城市熱力公司 ("Liaocheng City Heating Company")	**25**	–
長沙市燃氣實業有限公司 ("Changsha City Gas Industry Company Limited")	**310**	–
	19,796	8,745

* Minority shareholders of subsidiaries

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

The amounts are unsecured, interest free and repayable on demand. The directors consider that the carrying amount of amounts due to related companies approximates their fair value.

33. Amounts due to Related Companies *(continued)*

The following is an aged analysis of amount due to related companies:

	2005 RMB'000	2004 RMB'000
0 – 3 months	17,348	5,728
4 – 6 months	460	1,054
7 – 9 months	1,134	337
10 – 12 months	573	190
More than 1 year	281	1,436
Amounts due to related companies	19,796	8,745

34. Bank and Other Loans

	2005 RMB'000	2004 RMB'000
Secured bank loans	109,947	45,734
Unsecured bank loans	1,417,593	1,303,353
	1,527,540	1,349,087
Unsecured loans from minority shareholders	–	509
	1,527,540	1,349,596
The bank and other loans are repayable:		
Within one year	566,457	643,441
Between one to two years	9,328	279,844
Between two to five years	229,123	186,311
More than five years	722,632	240,000
	1,527,540	1,349,596
Less: Amount due within one year shown under current liabilities	(566,457)	(643,441)
Amount due after one year	961,083	706,155

34. Bank and Other Loans *(continued)*

Borrowings comprise:

	Maturity date	Effective interest rate	Carrying amount 2005 RMB'000	2004 RMB'000
Fixed-rate borrowings:				
4.65% – 5.5% secured RMB bank loan of RMB67,900,000	31/3/2006 – 11/9/2006	5.58%	**67,900**	–
5.02% – 6.7% unsecured RMB bank loan of RMB448,745,000	15/1/2006 – 20/3/2015	5.66%	**448,745**	242,000
			516,645	242,000
Floating-rate borrowings:				
Unsecured RMB bank loan of RMB767,093,000 at People's Bank of China ("PBOC") base rate	11/1/2006 – 31/12/2012	6.02%	**767,093**	317,652
Secured RMB bank loan of RMB31,555,000 at PBOC base rate	14/1/2006 – 6/9/2007	5.95%	**31,555**	33,820
Unsecured USD bank loan of USD25,000,000 at LIBOR plus 1.45%	28/5/2004 – 15/12/2009	4.83%	**201,755**	744,209
Secured HKD bank loan of HKD10,088,000 at Prime rate minus 2.8%	11/7/2011	4.7%	**10,492**	11,915
			1,010,895	1,107,596
Total borrowings			**1,527,540**	1,349,596

The directors consider that the carrying amount of the above Group's borrowings as at balance sheet date approximates their fair values.

35. Share Capital

	2005 Number of shares	2004 Number of shares	2005 HK'000	2004 HK'000
Shares of HK0.10 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	**867,487,500**	737,000,000	**86,749**	73,700
Issue of shares on placing	**–**	122,000,000	**–**	12,200
Issue of shares on exercise of share options	**22,112,500**	8,487,500	**2,211**	849
Issue of shares on conversion of convertible bonds	**14,633,560**	–	**1,463**	–
At end of the year	**904,233,560**	867,487,500	**90,423**	86,749

	2005 RMB'000	2004 RMB'000
Presented in financial statements as:		
At beginning of the year	**91,954**	78,122
Issue of shares on placing	**–**	12,932
Issue of shares on exercise of share options	**2,343**	900
Issue of shares on conversion of convertible bonds	**1,522**	–
At end of the year	**95,819**	91,954

On 28 February 2005, 10 June 2005 and 22 June 2005, 11,637,500 , 6,525,000 and 3,950,000 shares of HK$0.10 each were issued at HK$2.265 per share by way of exercise of share options, respectively. These shares rank pari passu with the existing shares in all respects. The net proceeds from shares issued were used as general working capital of the Group.

In August and October 2005, various convertible bond holders converted HK$57,710,000 and HK$21,860,000 convertible bonds into 10,613,331 and 4,020,229 shares of HK$0.10 each, respectively. The shares were converted at HK$5.4375 per share. These shares rank pari passu with the existing shares in all respects.

36. Convertible Bonds

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

According to the terms of conditions of the CB, the bondholders will have the right, at the bondholder's option, to require the Company to redeem all or some of the CB at 103.16% of their principal amount on 15 May 2007. The directors consider that the fair value of such option would not be significant given the current market price of the Company. According to the terms and condition of the CB, on or at any time after 15 May 2007 and prior to the maturity date, the Company may redeem all but not some of the CB at the early redemption amount as defined in the subscription agreement of the CB if (i) the closing price of the shares, for each of any 20 Trading Days within a period of 30 consecutive trading days, the last day of such 30-trading day period falls within five trading days prior to the date upon which notice of such redemption is given was at least 130% of the conversion price in effect on each such trading day or (ii) at lest 90% in principal amount of the CB has already been converted, redeemed or purchased and cancelled. The directors consider that the fair value of such option would not be significant.

36. Convertible Bonds *(continued)*

Upon the application of HKAS 32 Financial Instruments" Disclosure and Presentation (see note 2A for details), the CB were split between liability and equity elements, on a retrospective basis. The equity element is presented in equity heading, "convertible bond – equity reserve".

The net proceeds received from the issue of the CB have been split into two components, the liability and equity elements, representing the fair value of the embedded option to covert the liability into equity of the Group at initial recognition, as follows:

	RMB'000
Nominal value of CB issued, net of issue costs	566,257
Equity component	(53,896)
Liability component at date of issue	512,361
Interest charge	2,501
Liability component at 31 December 2004	514,862
Exchange difference	(9,715)
Interest charge	16,867
Conversion to shares	(73,081)
Liability component at 31 December 2005	448,933

The interest charged for the year is calculated by applying an effective interest rate of 3.9% (2004: 3.9%) to the liability component.

The fair value of the liability component of the CB at 31 December 2005, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate at 5.5% for an equivalent non-convertible loan at the balance sheet date, was approximately of RMB398,750,000.

37. Guaranteed Notes

	2005 RMB'000	2004 RMB'000
Guaranteed notes	**1,570,729**	–

During the year, the Company issued guaranteed notes in the aggregate principal amount of US$200,000,000 which are unsecured, unconditionally and irrecoverably guaranteed by certain subsidiaries of the Company.

The guaranteed notes are denominated in US dollars at fixed interest rate of 7.375% per annum due in August 2012. The guaranteed notes expose the Group to fair value interest rate risk.

According to the terms and conditions of the guaranteed notes, at any time or from time to time prior to the maturity date, the Company may at its option to redeem the notes at a redemption price equal to 100% of the principal amount thereof plus the applicable premium plus accrued and unpaid interest to such redemption date. The early redemption right is considered closely related to the guaranteed note and is therefore not separately accounted for.

The effective interest rate is approximately 7.92% per annum.

The fair value of the guaranteed notes at 31 December 2005, determined at the prevailing market rate was approximately RMB1,636,734,000.

38. Deferred Taxation

At the balance sheet date, the Group had deferred tax liabilities amounting to approximately RMB8,398,000 (2004: RMB9,731,000) arising on valuation of properties. The movements of deferred taxation during the current and prior reporting periods are as follows:

	2005 RMB'000	2004 RMB'000
At beginning of the year, as originally stated	**24,205**	17,058
Effect of change in accounting polices (see note 2A)	**(14,474)**	(10,650)
At beginning of the year, as restated	**9,731**	6,408
(Credit) charge to equity during the year	**(1,333)**	3,323
At end of the year	**8,398**	9,731

At the balance sheet date, the Group has unused tax losses of RMB149,268,000 (2004: RMB80,587,000) 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. The unrecognised tax losses will expire in the following year ending 31 December:

	2005 RMB'000	2004 RMB'000
2007	**1,211**	1,823
2008	**25,951**	29,900
2009	**46,384**	48,864
2010	**75,722**	–
	149,268	80,587

39. 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 the 2002 Scheme 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.

39. Share Option Scheme *(continued)*

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

2002 Scheme

	Date of grant	Exercise period	Exercise price	Number of options outstanding at 1.1.2005 HK$	Exercised during the year HK$	Number of options outstanding at 31.12.2005 HK$
Directors	14.2.2003	15.8.2003 – 14.2.2013	HK$2.265	17,287,500	(15,587,500)	1,700,000
Employees	14.2.2003	15.8.2003 – 14.2.2013	HK$2.265	6,525,000	(6,525,000)	–
				23,812,500	(22,112,500)	1,700,000
Exercisable at the end of the year						1,700,000

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

11,637,500 shares, 6,525,000 shares and 3,950,000 shares were issued under the Company's share option scheme on 28 February 2005, on 10 June 2005 and on 22 June 2005 respectively. The fair value of the Company's share at the dates of issue for the exercise of share option on 28 February 2005, on 10 June 2005 and on 22 June 2005 are HK$4.39, HK$4.45 and HK$4.50 per share, respectively.

At 31 December 2005, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 1,700,000 (2004: 23,812,500) representing 0.19% (2004: 2.74%) of the shares of the Company in issue as at that date.

In the current year, the Group chose not to apply HKFRS 2 to the share options granted by the Group which had been fully vested before 1 January 2005 in accordance with the transitional provision of HKFRS 2. Accordingly, no prior year adjustment has been required.

The financial impact of the existing share options granted and fully vested before 1 January 2005 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.

40. Acquisition of Subsidiaries

On 1 January 2005, the Group acquired 100% of the issued share capital of 貴港新奥燃氣有限公司 for cash consideration of RMB17,268,000. This transaction has been accounting for using the purchase method of accounting.

The fair values of assets and liabilities, the amounts of which are approximate to the carrying values immediately before the acquisition of subsidiaries, acquired in the transaction are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	7,731
Prepaid lease payments	1,279
Inventories	912
Trade and other receivables	1,069
Bank balances and cash	3,522
Trade and other payables	(4,808)
Taxation payable	(1)
	9,704
Goodwill on acquisition	7,564
Total consideration	17,268
Satisfied by cash	17,268
Net cash outflow arising on acquisition:	
Cash consideration paid	(17,268)
Bank balances and cash acquired	3,522
	(13,746)

The goodwill arising on the acquisition of 貴港新奥燃氣有限公司 is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

貴港新奥燃氣有限公司 contributed RMB896,000 revenue and loss of RMB1,564,000 to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

40. Acquisition of Subsidiaries *(continued)*

On 30 June 2005, the Group acquired 85% of the issued share capital of 長沙星沙新奥燃氣有限公司 for cash consideration of RMB25,000,000 (included RMB5,000,000 was unpaid as at year ended). This transaction has been accounted for using the purchase method of accounting.

The provisional fair values of assets and liabilities, the amounts of which are approximate to the carrying values immediately before the acquisition of subsidiaries, acquired in the transaction are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	9,898
Prepaid lease payments	2,700
Inventories	86
Trade and other receivables	600
Bank balances and cash	2,142
Trade and other payables	(693)
Taxation payable	(23)
	14,710
Attributable to minority shareholders	(2,207)
Goodwill on acquisition	12,497
Total consideration	25,000
Satisfied by cash	
Paid	20,000
Unpaid	5,000
	25,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(20,000)
Bank balances and cash acquired	2,142
	(17,858)

The goodwill arising on the acquisition of 長沙星沙新奥燃氣有限公司 is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

長沙星沙新奥燃氣有限公司 contributed to the Group's RMB6,771,000 revenue and RMB616,000 to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition of 長沙星沙新奥燃氣有限公司 had been completed on 1 January 2005, total group revenue for the year would have been RMB2,060,088,000, and profit for the year would have been RMB436,321,000. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

40. Acquisition of Subsidiaries *(continued)*

On 27 December 2005, the Group acquired 95% of the issued share capital of 杭州蕭山管道燃氣有限公司 for cash consideration of RMB60,935,000 (included RMB23,300,000 was unpaid as at year ended). This transaction has been accounted for using the purchase method of accounting.

The provisional fair values of assets and liabilities, acquired in the transaction are as follows:

	Acquiree's carrying amount before combination RMB'000	Fair value adjustment RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	5,215	1,180	6,395
Inventories	854	–	854
Trade and other receivables	4,454	–	4,454
Amounts due from customers for contract work	4,341	–	4,341
Bank balances and cash	38,195	–	38,195
Trade and other payables	(2,392)	–	(2,392)
Amounts due to customers for contract work	(14,333)	–	(14,333)
Taxation payable	(14,230)	–	(14,230)
	22,104	1,180	23,284
Minority interest			(1,165)
Goodwill on acquisition			38,816
Total consideration			60,935
Satisfied by cash			
Paid			37,635
Unpaid			23,300
			60,935
Net cash outflow arising on acquisition:			
Cash consideration paid			(37,635)
Bank balances and cash acquired			38,195
			560

The goodwill arising on the acquisition of 杭州蕭山管道燃氣有限公司 is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

No revenue or profit was contributed from 杭州蕭山管道燃氣有限公司 to the Group between the date of acquisition and the balance sheet date as it was acquired on 27 December 2005.

If the acquisition of 杭州蕭山管道燃氣有限公司 had been completed on 1 January 2005, total group revenue for the year would have been RMB2,102,238,000, and profit for the year would have been RMB395,853,000. The proforma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved have the acquisition been completed on 1 January 2005, nor it is intended to be a projection of future results.

40. Acquisition of Subsidiaries *(continued)*

During the year ended 31 December 2004, the Group acquired 51% of the issued capital of 汕頭新奧燃氣有限公司 ("Shantou Xinao Gas Company Limited") for cash consideration of RMB10,000,000.

The fair values of assets and liabilities acquired in the transaction are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	15,211
Inventories	592
Trade and other receivables	5,381
Bank balances and cash	8,529
Trade and other payables	(2,963)
	26,750
Minority interests	(16,848)
Goodwill on acquisition	98
Total consideration	10,000
Satisfied by cash	
– Paid	10,000
Net cash outflow arising on acquisition:	
Cash consideration paid	10,000
Bank balances and cash acquired	(8,529)
	1,471

汕頭新奧燃氣有限公司 contributed to RMB2,650,000 to the Group's revenue and RMB211,000 to the Group's profit for the year for the period between the date of acquisition and the balance sheet date.

41. Incorporation of Subsidiaries

During the year, the Group established two subsidiaries in the PRC, namely 青島新奧膠南燃氣有限公司 and 台州新奧燃氣有限公司 which the Group owns 100% and 80% issued share capital, respectively. These transactions have been accounted for using the purchase method of accounting.

The fair values of assets and liabilities which are approximate to the carrying amount are as follows:

	2005 RMB'000
Net assets acquired:	
Property, plant and equipment	19,793
Inventories	1,867
Trade and other receivables	3,184
Trade and other payables	(14,296)
Bank loans	(2,345)
Payable to a minority shareholder	(10,557)
Bank balances	52,078
	49,724
Minority interest	(7,213)
Goodwill recognised (note 17)	9,567
Total consideration	52,078
Satisfied by cash contribution	52,078

The goodwill arising on the acquisition of 青島新奧膠南燃氣有限公司 and 台州新奧燃氣有限公司 is attributable to their anticipated profitability and the anticipated future operating synergies from the combination.

青島新奧膠南燃氣有限公司 and 台州新奧燃氣有限公司 contributed to the Group's revenue of RMB4,632,000 and RMB3,133,000, respectively and contributed to the Group's loss of RMB1,752,000 and RMB1,406,000, respectively.

During 2004, the Group established a subsidiary in the PRC, namely 通遼新奧燃氣有限公司 which the Group owns 80% issued share capital. The minority shareholders contributed the capital in form of non-cash assets summarised below:

	2005 RMB'000
Non-cash assets:	
Property, plant and equipment	5,392
Inventories	556
Trade and other receivables	(600)
Amounts due to related companies	(1,008)
	4,340
Goodwill recognised (note 17)	600
Total consideration	4,940

The goodwill arising on the acquisition of 通遼新奧燃氣有限公司 is attributable to their anticipated profitability and the anticipated future operating synergies from the combination.

通遼新奧燃氣有限公司 contributed to the Group's revenue of RMB867,000 and contributed to the Group's loss of RMB1,824,000 during the year ended 31 December 2004.

42. Capital Commitments

	2005 RMB'000	2004 RMB'000
Capital expenditure in respect of:		
acquisition of property, plant and equipment:		
– contracted but not provided for	**15,227**	22,673
– authorised but not contracted for	**–**	14,200
	15,227	36,873
Group's share of capital commitments in joint ventures:		
– contracted but not provided for	**161,390**	114,125
	176,617	150,998

43. 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:

	2005 RMB'000	2004 RMB'000
Within one year	**4,532**	3,117
In the second to fifth year inclusive	**4,882**	4,089
Over five years	**1,374**	415
	10,788	7,621

Leases are negotiated for an average term of two years and rentals are fixed for an average of one year.

The Group as lessor

Certain of the Group's properties with a carrying amount of RMB71,602,000 are held for rental purposes. The properties are expected to generate rental yields of 5.8% (2004: 6.2%) on an ongoing basis. All of the properties held have committed tenants for the next two years.

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

	2005 RMB'000	2004 RMB'000
Within one year	**3,131**	1,026
In the second to fifth year inclusive	**2,310**	2,345
Over five years	**–**	120
	5,441	3,491

44. Pledge of Assets

At the balance sheet date, the Group pledged certain assets as securities for bank loans granted to the Group, associates and jointly controlled entities as follows:

	2005 RMB'000	2004 RMB'000
Carrying amount of:		
Property, plant and equipment	**60,605**	116,168
Investment properties	**27,604**	–
	88,209	116,168

In addition to the above, the Group has also pledged its rights to fee income of certain subsidiaries in favour of banks to secure banking facilities granted to the Group and an associate.

45. Contingent Liabilities

During the year, the Group has issued guarantees to banks to secure loan facilities granted to an associate and a jointly controlled entity to the extent of RMB40,000,000 and RMB37,000,000, respectively.

At 31 December 2005, the associate and jointly controlled entity had drawn down loan facilities of RMB40,000,000 and RMB37,000,000, respectively.

46. Related Party Transactions

Nature of transaction	Name of related party	2005 RMB'000	2004 RMB'000
Provision of gas connection service to related parties (i)	石家莊安瑞科氣體機械有限公司	**–**	3,600
	蚌埠新奧置業有限公司	**–**	1,843
	廊坊新奧房地產開發有限公司	**6,290**	–
	廊坊新城房地產開發有限公司	**–**	18,412
	新奧集團艾力楓社酒店有限公司	**105**	–
		6,395	23,855
Provision of gas connection service to a minority shareholders (i)	北京市昌平市政經濟發展總公司	**18**	–
Sales of gas to related parties (ii)	安瑞科(蚌埠)壓縮機有限公司	**88**	73
	新奧集團艾力楓社酒店有限公司	**1,239**	560
	廊坊新奧物業管理有限公司	**4,356**	6,687
	新奧集團股份有限公司	**145**	145
	廊坊新奧房地產開發有限公司	**132**	–
	廊坊新城房地產開發有限公司	**–**	207
		5,960	7,672
Sales of gas to a minority shareholder (ii)	蘭溪東昇能源有限公司	**26**	–

46. Related Party Transactions *(continued)*

Nature of transaction	Name of related party	2005 RMB'000	2004 RMB'000
Sales of gas to a jointly controlled entity (ii)	東莞新奧燃氣有限公司	**9,313**	372
Purchase of gas from a minority shareholder (ii)	海寧民泰煤氣有限公司	**–**	705
Purchase of gas from a jointly controlled entity (ii)	鹽城新奧壓縮天然氣有限公司	**22,815**	6,218
Sales of materials to related parties (ii)	安瑞科（蚌埠）壓縮機有限公司	**–**	25
	新奧新能（北京）科技有限公司	**20**	–
	廊坊新奧房地產開發有限公司	**57**	–
	新奧集團股份有限公司	**71**	–
		148	25
Sales of materials to jointly controlled entities (ii)	東莞新奧燃氣有限公司	**4,446**	1,734
	湖州新奧燃氣發展有限公司	**478**	–
	湖州新奧燃氣有限公司	**903**	–
	鹿泉富新燃氣有限公司	**4,238**	–
	煙台新奧燃氣發展有限公司	**525**	–
		10,590	1,734
Sales of materials to associates (ii)	北海新奧燃氣有限公司	**55**	–
	東莞新奧莞樟燃氣有限公司	**53**	–
		88	–
Lease of premises to related parties (iii)	廊坊新奧房地產開發有限公司	**330**	330
	新奧集團股份有限公司	**1,475**	1,739
	Enric Investment Group Limited	**316**	–
		2,121	2,069
Lease of premises from minority shareholders (iii)	海寧萬通燃氣有限公司	**50**	50
	海寧民泰煤氣有限公司	**120**	120
		170	170
Lease of assets from a minority shareholder (x)	湛江市燃氣集團公司	**300**	300
Provision for management services by related parties (iv)	廊坊新奧物業管理有限公司	**345**	1,380
	新奧集團艾力楓社酒店有限公司	**909**	–
		1,254	1,380

46. Related Party Transactions *(continued)*

Nature of transaction	Name of related party	2005 RMB'000	2004 RMB'000
Purchase of compressed natural gas truck trailers, pressure regulating and gas equipment by related parties (v)	新奧集團石家莊化工機械股份有限公司	83,919	22,380
	安瑞科(蚌埠)壓縮機有限公司	11,614	11,603
	安瑞科(廊坊)能源裝備集成有限公司	14,340	–
		109,873	33,983
Purchase of gas appliances from related parties (v)	新奧集團國際經濟發展有限公司	–	752
	新奧集團石家莊化工機械股份有限公司	2,747	–
		2,747	752
Deposit for purchase of compressed natural gas truck trailers, pressure regulating and gas equipment by related parties (v)	安瑞科(蚌埠)壓縮機有限公司	8,699	–
Purchase of land and buildings from related parties (vi)	廊坊新奧房地產開發有限公司	19,149	–
	蚌埠新奧置業有限公司	12,883	–
		32,032	–
Provision of decoration services from a related party (xii)	廊坊新奧建築安裝工程有限公司	999	–
Deposits for acquisition of land and building from a related party(v)	新奧集團股份有限公司	13,775	–
Deposits of purchasing services from a related party (ii)	廊坊新奧建築安裝工程有限公司	2,119	–
Interest payment on loan advance to related parties (vii)	常州武進燃氣有限公司	–	397
	開封市發展投資有限公司	–	244
		–	641
Provision of property management service to related parties (xii)	新奧集團股份有限公司	264	–
Purchase of materials from a jointly controlled entity (ii)	湖州新奧燃氣有限公司	1,277	–
Purchase of materials from related parties (ii)	新奧集團石家庄化工機械有限公司	–	5
	安瑞科(蚌埠)科壓縮機有限公司	–	107
		–	112

46. Related Party Transactions *(continued)*

Nature of transaction	Name of related party	2005 RMB'000	2004 RMB'000
Donation to related party (viii)	新奧慈善基金會	500	–
Loan interest from a jointly controlled entity (vii)	鹽城新奧壓縮天然氣有限公司	106	–
Loan interest from an associate (vii)	北海新奧燃氣有限公司	48	–
Provision of construction services to a jointly controlled entity (xii)	煙台新奧燃氣發展有限公司	1,165	–
Purchase of gas trucks vehicles from a jointly controlled entity (ii)	鹿泉富新燃氣有限公司	8,479	– –
Purchase of assets from a minority shareholder (ii)	常州武進燃氣有限公司	1,383	–
Payments on behalf of minority shareholders (ix)	株洲市城市建設投資經營有限公司	2,000	–
	新鄉市燃氣總公司	400	–
		2,400	–
Provision of construction service from a minority shareholder (xii)	汕頭市澄海燃氣建設有限公司	742	–
Lease of assets from minority shareholder (x)	湛江市燃氣集團公司	300	300
Loan advance from associates (xi)	北海新奧燃氣有限公司	77,000	25,000
	東莞新奧燃氣有限公司	400	–
		77,400	25,000
Loan advance from jointly controlled entities (xi)	湖州新奧燃氣有限公司	769	–
	煙台新奧燃氣有限公司	1,983	–
		2,752	–
Loan advance to an associate	北海新奧燃氣有限公司		
(xiii)		57,000	–
(xi)		4,000	–
		61,000	–
Loan advance to a jointly controlled entity (vii)	鹽城新奧壓縮天然氣有限公司	2,000	–
Loan advance to jointly controlled entities (xi)	鹿泉富新燃氣有限公司	2,800	–
	煙台新奧燃氣發展有限公司	16,990	–
		19,790	–

46. Related Party Transactions *(continued)*

Nature of transaction	Name of related party	2005 RMB'000	2004 RMB'000
Guarantee issued to a bank secure loan facility granted to an associate	北海新奧燃氣有限公司	40,000	–
Guarantees issued to banks to secure loan facility granted to a jointly controlled entity	煙台新奧燃氣發展有限公司	37,000	–
Guarantee issued by a joint venture partner to bank to secure loan facility granted to a jointly controlled entity	湖州新奧燃氣有限公司	50,000	–

All the above related parties are controlled by Mr. Wang who is the major shareholder and director of the Company, except the minority shareholders of subsidiaries, associates and jointly controlled entities as indicated above.

Compensation of key personnel

The remuneration of directors and other members of key management during the year was disclosed in note 10.

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, gas trucks, land and repair service expense were changed in accordance with rates agreed between the Group and related parties.

(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 with reference to open market rates.

(iv) The provision of management services was determined in accordance with the contract entered into between the Group and the related party with references to open market rates.

(v) The consideration for acquisition of land and building, compressed natural gas truck trailers, pressure regulating and gas equipment and gas appliances was charged in accordance with prices by reference to the similar transactions with outsiders.

(vi) The consideration for acquisition of land and buildings was charged in accordance with prices by reference to the similar transactions with outsiders.

(vii) The loans from/to related parties are unsecured, carried interest at prevailing market rate and repayable on demand.

(viii) Donation to related party was determined based on the amount approved by the management of the respective subsidiary, the related party has no beneficial interests on the donation.

(ix) Payments made on behalf of minority shareholders are unsecured, interest free and repayable on demand.

(x) Rental for lease of assets was determined in accordance with the contracts entered into between the Group and respective parties.

(xi) The loan advances are unsecured interest free and repayable within twelve months from the balance sheet date.

(xii) The provision/purchase of services has determined in accordance with the terms agreed between the Group and related parties.

(xiii) The loan advance is unsecured, carried interest at prevailing market rate and repayable in 2008.

47. Segment Information

(a) Business segments

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

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

2005

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Unallocated segment RMB'000	Consolidation RMB'000
Revenue	1,033,260	767,552	191,463	64,551	–	2,056,826
Result	765,176	138,810	3,960	14,132	–	922,078
Unallocated other income						120,271
Unallocated corporate expenses						(508,145)
						534,204
Share of results of associates	896	240	–	–	–	1,136
Share of results of jointly controlled entities	20,648	288	–	–	–	20,936
Finance costs						(127,289)
Profit before taxation						428,987
Taxation						(38,719)
Profit for the year						390,268

2004

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Unallocated segment RMB'000	Consolidation RMB'000
Revenue	822,697	429,779	149,185	38,284	–	1,439,945
Result	588,601	74,939	908	5,200	–	669,648
Unallocated other income						47,596
Unallocated corporate expenses						(359,063)
						358,181
Share of results of associates	3	(866)	–	–	(363)	(1,226)
Share of results of jointly controlled entities	(1,103)	2	–	–	–	(1,101)
Finance costs						(42,746)
Profit before taxation						313,108
Taxation						(9,196)
Profit for the year						303,912

47. Segment Information *(continued)*

(a) Business segments *(continued)*

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

2005

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Unallocated segment RMB'000	Consolidation RMB'000
Assets:						
Segment assets	444,978	307,833	78,966	54,588	2,827,370	3,713,735
Interests in associates	16,655	101,974	–	–	10,032	128,661
Interests in jointly controlled entities	195,014	40,418	–	–	–	235,432
Unallocated corporate assets						3,444,265
Consolidated total assets						7,522,093
Liabilities:						
Segment liabilities	438,978	116,737	3,122	20,042	15,371	594,250
Unallocated corporate liabilities						4,076,975
Consolidated total liabilities						4,671,225

2004

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Unallocated segment RMB'000	Consolidation RMB'000
Assets:						
Segment assets	401,692	154,402	62,584	41,435	2,037,202	2,697,315
Interests in associates	6,259	44,734	–	–	10,032	61,025
Interests in jointly controlled entities	130,369	40,130	–	–	–	170,499
Unallocated corporate assets						1,924,591
Consolidated total assets						4,853,430
Liabilities:						
Segment liabilities	311,453	58,936	8,493	15,797	33,354	428,033
Unallocated corporate liabilities						2,064,545
Consolidated total liabilities						2,492,578

47. Segment Information *(continued)*

(a) Business segments *(continued)*

OTHER INFORMATION

	Capital additions		Depreciation	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Gas connection	26,178	40,725	5,700	3,420
Sales of piped gas	194,906	29,694	9,620	9,209
Distributions of bottled liquefied petroleum gas	41,049	3,094	12,541	2,140
Sales of gas appliances	1,829	1,454	765	434
Unallocated segment	694,684	738,330	58,354	49,517
	958,646	813,297	86,980	64,720

(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.

48. 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.

	2005 RMB'000	2004 RMB'000
Retirement benefit contribution made during the year	16,522	12,411

49. Post Balance Sheet Events

1. Subsequent to the balance sheet date 31 December 2005, the Group has set up certain 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
南安市燃氣有限公司 ("Nanan City Gas Company Limited")	RMB6,300,000	42%	Investment in gas pipeline infrastructure
惠安縣燃氣有限公司 ("Hui County Gas Company Limited")	RMB20,000,000	60%	Investment in gas pipeline infrastructure
石獅新奧燃氣有限公司 ("Shishi Xinao Gas Company Limited")	RMB10,000,000	60%	Investment in gas pipeline infrastructure
洛陽新奧華油燃氣有限公司 ("Luoyang Xinao Huayou Gas Company Limited")	US$5,070,000	51%	Sales of artificial coal gas, natural gas and liquefied gas
上海九環汽車天然氣發展有限公司 ("Shanghai Jiuhuan Vehicle Natural Gas Development Company Limited")	RMB20,000,000	40%	Development and conversion of CNG vehicle equipment and construction and operation of CNG refueling stations
新能化工有限公司 ("Xinneng Chemical Company Limited")	US$99,000,000	15%	Production of methanol and dimethyl ether
泉州市燃氣有限公司 ("Quanzhou City Gas Company Limited")	RMB270,000,000	60%	Construction and installation of piped gas infrastructure

1. Most of above companies are established through cash contribution by the Group and assets injection by the other investors. As at report date, it is still not yet in a position to assess the fair values of the net assets to be injected.

2. On 3 March 2006, a placing agreement was entered into by Xinao Group International Investment Limited ("XGII"), the controlling shareholder of the Company, under which a total of 45,211,000 existing shares held originally by XGII was placed to independent third parties at the price of HK$6.20 per share. After completion of the share placing and subscription, XGII's shareholdings in the Company was diluted from 42.52% to 37.52%

3. In March and April 2006, convertible bondholders with face value of HK$22,500,000 (equivalent to approximately RMB23,400,000) submitted conversion notices to the Company. The Company issued 4,137,928 shares of HK$0.1 each to the convertible bondholders in accordance with the terms and conditions of the convertible bonds and the conversion price was HK$5.4375 per share. These share rank pari passu with the existing shares in all respects. The total issued share capital of the Company was increased to 908,371,488 shares after the conversion.

50. Particular of Principal Subsidiaries

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
北京新奧燃氣有限公司* ("Beijing Xinao Gas Company Limited")	The PRC	Registered capital US$1,195,600	95%	Investment in gas pipeline infrastructure and sales of piped gas
北京新奧京昌燃氣有限公司* ("Beijing Xinao Jingchang Gas Company Limited")	The PRC	Registered capital RMB9,900,000	80%	Sales of piped gas
北京新奧京谷燃氣有限公司* ("Beijing Xinao Jinggu Gas Company Limited")	The PRC	Registered capital RMB9,900,000	90%	Sales of piped gas
蚌埠新奧燃氣有限公司* ("Bengbu Xinao Gas Company Limited")	The PRC	Registered capital RMB110,000,000	70%	Investment in gas pipeline infrastructure
蚌埠新奧燃氣發展有限公司* ("Bengbu Xinao Gas Development Company Limited")	The PRC	Registered capital US$600,000	70%	Sales of piped gas and bottled liquefied petroleum gas
濱州新奧燃氣工程有限公司# ("Binzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US$600,000	100%	Investment in gas pipeline infrastructure
亳州新奧燃氣有限公司* ("Bozhou Xinao Gas Company Limited")	The PRC	Registered capital US$3,200,000	70%	Sales of piped gas
亳州新奧燃氣工程有限公司* ("Bozhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US$800,000	70%	Investment in gas pipeline infrastructure
長沙新奧燃氣有限公司* ("Changsha Xinao Gas Company Limited")	The PRC	Registered capital RMB150,000,000	55%	Investment in gas pipeline infrastructure and sales of piped gas
長沙星沙新奧燃氣有限公司* ("Changsha Xingsha Xinao Gas Company Limited")	The PRC	Registered capital RMB3,000,000	46.75%	Investment in gas pipeline infrastructure and sales of piped gas
新奧燃氣工程有限公司# ("Xinao Gas Engineering Company Limited ")	The PRC	Registered capital US$7,000,000	100%	Investment in gas pipeline infrastructure
常州新奧燃氣發展有限公司* ("Changzhou Xinao Gas Development Company Limited")	The PRC	Registered capital US$600,000	60%	Sales of piped gas

50. Particular of Principal Subsidiaries *(continued)*

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
常州新奧燃氣工程有限公司* ("Changzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US$5,000,000	60%	Investment in gas pipeline infrastructure and sales of piped gas
巢湖新奧燃氣有限公司# ("Chaohu Xinao Gas Company Limited")	The PRC	Registered capital US$5,784,000	100%	Investment in gas pipeline infrastructure
巢湖新奧燃氣發展有限公司# ("Chaohu Xinao Gas Development Company Limited")	The PRC	Registered capital US$420,000	100%	Sales of piped gas
滁州新奧燃氣有限公司* ("Chuzhou Xinao Gas Company Limited")	The PRC	Registered capital US$7,100,000	90%	Sales of piped gas
滁州新奧燃氣工程有限公司* ("Chuzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US$600,000	93%	Investment in gas pipeline infrastructure
鳳陽新奧燃氣有限公司# ("Fengyang Xinao Gas Company Limited")	The PRC	Registered capital US$2,000,000	100%	Sales of piped gas
鳳陽新奧燃氣工程有限公司# ("Fengyang Xinao Gas Engineering Company Limited")	The PRC	Registered capital US$600,000	100%	Investment in gas pipeline infrastructure
貴港新奧燃氣有限公司# ("Guigang Xinao Gas Company Limited ")	The PRC	Registered capital US$3,500,000	100%	Investment in gas pipeline infrastructure and sale of piped gas
貴港新奧燃氣工程有限公司# ("Guigang Xinao Gas Engineering Company Limited ")	The PRC	Registered capital US$500,000	100%	Investment in gas pipeline infrastructure
桂林新奧燃氣有限公司* ("Guilin Xinao Gas Company Limited ")	The PRC	Registered capital US$6,000,000	60%	Investment in gas pipeline infrastructure and sales of piped gas
桂林新奧燃氣發展有限公司* ("Guilin Xinao Gas Development Company Limited ")	The PRC	Registered capital US$120,000	60%	Investment in gas pipeline infrastructure and sales of piped gas
海安新奧燃氣有限公司# ("Haian Xinao Gas Company Limited")	The PRC	Registered capital US$1,200,000	100%	Sales of piped gas

50. Particular of Principal Subsidiaries *(continued)*

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
海寧新奧燃氣有限公司* ("Haining Xinao Gas Company Limited")	The PRC	Registered capital US$5,000,000	80%	Investment in gas pipeline infrastructure
海寧新奧燃氣發展有限公司* ("Haining Xinao Gas Development Company Limited")	The PRC	Registered capital US$800,000	86%	Sales of piped gas
杭州蕭山管道燃氣發展有限公司* ("Hangzhou Xiaoshan Piped Gas Development Company Limited ")	The PRC	Registered capital RMB10,000,000	95%	Investment in gas pipeline infrastructure and sales of piped gas
淮安新奧燃氣有限公司* ("Huaian Xinao Gas Company Limited")	The PRC	Registered capital RMB30,000,000	80%	Investment in gas pipeline infrastructure and sales of piped gas and bottled liquefied petroleum gas
葫蘆島新奧燃氣有限公司* ("Huludao Xinao Gas Company Limited")	The PRC	Registered capital US$1,207,700	90%	Investment in gas pipeline infrastructure
葫蘆島新奧燃氣發展有限公司* ("Huludao Xinao Gas Development Company Limited")	The PRC	Registered capital US$1,200,000	90%	Sales of piped gas
金華新奧燃氣有限公司# ("Jinhua Xinao Gas Company Limited")	The PRC	Registered capital US$5,000,000	100%	Investment in gas pipeline infrastructure
金華新奧燃氣發展有限公司# ("Jinhua Xinao Gas Development Company Limited")	The PRC	Registered capital US$600,000	100%	Sales of piped gas
開封新奧燃氣有限公司* ("Kaifeng Xinao Gas Company Limited")	The PRC	Registered capital US$10,000,000	90%	Investment in gas pipeline infrastructure and sales of piped gas
萊陽新奧燃氣有限公司* ("Laiyang Xinao Gas Company Limited")	The PRC	Registered capital US$5,000,000	95%	Sales of piped gas and bottled liquefied petroleum gas
萊陽新奧燃氣工程有限公司* ("Laiyang Xinao Gas Project Company Limited")	The PRC	Registered capital US$800,000	97%	Investment in gas pipeline infrastructure
廊坊新奧燃氣有限公司# ("Langfang Xinao Gas Company Limited")	The PRC	Registered capital US$9,333,900	100%	Investment in gas pipeline infrastructure and sales of piped gas

50. Particular of Principal Subsidiaries *(continued)*

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
廊坊新奧燃氣設備有限公司# ("Langfang Xinao Gas Equipment Company Limited")	The PRC	Registered capital US$360,000	100%	Manufacture of stored value card gas metre
蘭溪新奧燃氣有限公司* ("Lanxi Xinao Gas Company Limited")	The PRC	Registered capital US$1,500,000	80%	Investment in gas pipeline infrastructure and sales of piped gas
連雲港新奧燃氣有限公司* ("Lianyungang Xinao Gas Company Limited")	The PRC	Registered capital RMB49,512,100	70%	Sales of piped gas
連雲港新奧燃氣工程有限公司* ("Lianyungang Xinao Gas Development Company Limited")	The PRC	Registered capital RMB10,000,000	70%	Investment in gas pipeline infrastructure
聊城新奧燃氣有限公司* ("Liaocheng Xinao Gas Company Limited")	The PRC	Registered capital US$1,933,200	90%	Sales of piped gas
聊城新奧燃氣工程有限公司* ("Liaocheng Xinao Gas Engineering Company Limited")	The PRC	Registered capital US$1,200,000	93%	Investment in gas pipeline infrastructure
六安新奧燃氣有限公司# ("Luan Xinao Gas Company Limited")	The PRC	Registered capital RMB20,000,000	100%	Sales of piped gas
六安新奧燃氣工程有限公司# ("Luan Xinao Gas Project Company Limited")	The PRC	Registered capital US$800,000	100%	Investment in gas pipeline infrastructure
南通新奧燃氣工程有限公司# ("Nantong Xinao Gas Technology Company Limited")	The PRC	Registered capital US$800,000	100%	Investment in gas pipeline infrastructure
青島新奧燃氣有限公司* ("Qingdao Xinao Gas Company Limited")	The PRC	Registered capital RMB20,000,000	90%	Sales of piped gas
青島新奧燃氣設施開發有限公司* ("Qingdao Xinao Gas Establishment Exploiture Company Limited")	The PRC	Registered capital US$600,000	90%	Investment in gas pipeline infrastructure
青島新奧膠城燃氣有限公司* ("Qingdao Xinao Jiaocheng Gas Company Limited.")	The PRC	Registered capital US$5,000,000	90%	Investment in gas pipeline infrastructure and sales of piped gas

50. Particular of Principal Subsidiaries *(continued)*

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
青島新奧膠城燃氣工程有限公司# ("Qingdao Xinao Jiaocheng Gas Engineering Company Limited.")	The PRC	Registered capital HKD4,500,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
青島新奧膠南燃氣有限公司# ("Qingdao Xinao Jiaonan Gas Company Limited.")	The PRC	Registered capital US$4,400,000	100%	Sales of piped gas
青島新奧膠南燃氣工程有限公司# ("Qingdao Xinao Jiaonan Gas Engineering Company Limited")	The PRC	Registered capital US$1,000,000	100%	Investment in gas pipeline infrastructure
青島新奧新城燃氣有限公司* ("Qingdao Xinao Xincheng Gas Company Limited")	The PRC	Registered capital US$1,610,000	90%	Sales of piped gas
青島新奧新城燃氣工程有限公司* ("Qingdao Xinao Xinchang Engineering Company Limited")	The PRC	Registered capital US$800,000	93%	Investment in gas pipeline infrastructure
衢州新奧燃氣有限公司* ("Quzhou Xinao Gas Company Limited")	The PRC	Registered capital RMB50,000,000	90%	Investment in gas pipeline infrastructure
衢州新奧燃氣發展有限公司* ("Quzhou Xinao Gas Development Company Limited")	The PRC	Registered capital US$600,000	90%	Sales of piped gas
日照新奧燃氣有限公司* ("Rizhao Xinao Gas Company Limited")	The PRC	Registered capital US$5,600,000	80%	Sales of piped gas
日照新奧燃氣工程有限公司* ("Rizhao Xinao Gas Engineering Company Limited")	The PRC	Registered capital US$1,210,000	86%	Investment in gas pipeline infrastructure
商丘新奧燃氣有限公司# ("Shangqiu Xinao Gas Company Limited")	The PRC	Registered capital US$7,000,000	100%	Sale of piped gas
商丘新奧燃氣工程有限公司# ("Shangqiu Xinao Gas Engineering Company Limited")	The PRC	Registered capital US$3,000,000	100%	Investment in gas pipeline infrastructure
汕頭新奧燃氣有限公司* ("Shantou Xinao Gas Company Limited")	The PRC	Registered capital RMB34,580,000	51%	Sales of piped gas

50. Particular of Principal Subsidiaries *(continued)*

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
石家庄新奧燃氣有限公司* ("Shijiazhuang Xinao Gas Company Limited")	The PRC	Registered capital RMB300,000,000	70%	Investment in gas pipeline infrastructure and sale of piped gas
石家庄新奧車用燃氣有限公司* ("Shijiazhuang Xinao Vehicle Gas Company Limited")	The PRC	Registered capital RMB1,000,000	45.5%	Production and sale of gas for vehicle use
泰興新奧燃氣有限公司* ("Taixing Xinao Gas Company Limited")	The PRC	Registered capital US$1,200,000	90%	Sale 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
台州新奧燃氣有限公司* ("Taizhou Xinao Gas Company Limited")	The PRC	Registered capital US$5,000,000	80%	Investment in gas pipeline infrastructure and sales of piped gas
通遼新奧燃氣有限公司* ("Tongliao Xinao Gas Company Limited")	The PRC	Registered capital US$3,000,000	80%	Investment in gas pipeline infrastructure, sale of gas appliances and equipment, provision of repair and maintenance service and operation of natural gas stations
通遼新奧燃氣發展有限公司* ("Tongliao Xinao Gas Development Company Limited")	The PRC	Registered capital US$650,000	80%	Investment in gas pipeline infrastructure
溫州新奧燃氣有限公司# ("Wenzhou Xinao Gas Company Limited")	The PRC	Registered capital US$3,100,000	100%	Sales of piped gas
溫州新奧燃氣工程有限公司# ("Wenzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US$700,000	100%	Investment in gas pipeline infrastructure
溫州龍灣新奧燃氣有限公司# ("Wenzhou Longwan Xinao Gas Company Limited")	The PRC	Registered capital US$9,500,000	100%	Investment in gas pipeline infrastructure and sale 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 sale of piped gas

50. Particular of Principal Subsidiaries *(continued)*

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
新奥(中國)燃氣投資有限公司# ("Xinao (China) Gas Investment Company Limited")	The PRC	Registered capital US$30,000,000	100%	Sale of piped gas, supply of electricity and water and investment in infrastructure projects
新奥燃氣發展有限公司# ("Xinao Gas Development Company Limited") (Formerly known as Xinao (China) Gas Development Company Limited)	The PRC	Registered capital US$6,000,000	100%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sale of piped gas
Xinao Gas Investment# Group Limited	British Virgin Islands	Share capital US$1,000	100%	Investment holding
興化新奥燃氣有限公司# ("Xinghua Xinao Gas Company Limited")	The PRC	Registered capital US$1,200,000	100%	Sale of piped gas
興化新奥燃氣工程有限公司# ("Xinghua Xinao Gas Engineering Company Limited")	The PRC	Registered capital US$600,000	100%	Investment in gas pipeline infrastructure
新鄉新奥燃氣有限公司* ("Xinxiang Xinao Gas Company Limited")	The PRC	Registered capital US$10,000,000	95%	Sale of piped gas and bottled liquefied petroleum gas
新鄉新奥燃氣工程有限公司* ("Xinxiang Xinao Gas Engineering Company Limited")	The PRC	Registered capital US$1,200,000	97%	Investment in gas pipeline infrastructure
鹽城新奥燃氣有限公司# ("Yancheng Xinao Gas Company Limited")	The PRC	Registered capital RMB50,000,000	100%	Investment in gas pipeline infrastructure
鹽城新奥燃氣發展有限公司# ("Yancheng Xinao Gas Development Company Limited")	The PRC	Registered capital US$600,000	100%	Sale of piped gas
鹽城新城新奥燃氣有限公司# ("Yancheng Xincheng Xinao Gas Company Limited")	The PRC	Registered capital HK$20,000,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
揚州新奥燃氣有限公司# ("Yangzhou Xinao Gas Company Limited")	The PRC	Registered capital US$1,300,000	100%	Sale of piped gas

50. Particular of Principal Subsidiaries *(continued)*

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
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 sale of piped gas
煙台新奧實業有限公司* ("Yantai Xinao Industry Company Limited")	The PRC	Registered capital RMB55,000,000	60%	Investment in CNG vehicle refuelling station, pipeline construction, installation of gas equipment, production and sale of gas equipment
永康新奧燃氣有限公司# ("Yongkang Xinao Gas Company Limited")	The PRC	Registered capital US$8,000,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
永康新奧燃氣工程有限公司# ("Yongkang Xinao Gas Engineering Company Limited")	The PRC	Registered capital US$800,000	100%	Investment in gas pipeline infrastructure
肇慶市高新區新奧燃氣有限公司* ("Zhaoqing City High-New Zone Xinao Gas Company Limited")	The PRC	Registered capital US$2,100,000	95%	Investment in gas pipeline infrastructure and sales of piped gas
諸城新奧燃氣有限公司# ("Zhucheng Xinao Gas Company Limited")	The PRC	Registered capital US$3,000,000	100%	Sale of piped gas and bottled liquefied petroleum gas
諸城新奧管道工程有限公司# ("Zhucheng Xinao Pipeline Engineering Company Limited")	The PRC	Registered capital US$800,000	100%	Investment in gas pipeline infrastructure
株洲新奧燃氣有限公司* ("Zhuzhou Xinao Gas Company Limited")	The PRC	Registered capital RMB135,000,000	55%	Investment in gas pipeline infrastructure and sale 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%	Sale of piped gas
汕頭新奧燃氣有限公司* ("Shantou Xinao Gas Company Limited")	The PRC	Registered capital RMB34,580,000	51%	Sale of piped gas

50. Particular of Principal Subsidiaries *(continued)*

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

All principal 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 2005 or at any time during the year.

* *Sino-foreign equity joint venture*

\# *Wholly foreign owned enterprise*

新奧燃气控股有限公司
XinAo Gas Holdings Limited

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

Tel	(852) 2528 5666
Fax	(852) 2865 7204
Website	www.xinaogas.com
E-mail	xinao@xinaogas.com