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

Connecting **More...**

Annual Report 2006

Connecting... **'Growth'**

With 64 city piped gas projects in the PRC, XinAo Gas aims at further boosting the penetration rates in such projects by promoting the use of natural gas and connecting more residential and commercial/industrial customers.

WE AIM TO INCREASE THE
PENETRATION RATE TO OVER

30%

IN 3 YEARS

THE GROUP HAS A

18.9%

PENETRATION RATE OF
PIPED GAS IN 2006

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CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-executive Directors

Zhao Baoju
Jin Yongsheng

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
35/F One Pacific Place
88 Queensway
Hong Kong

Legal Adviser

Woo, Kwan, Lee & Lo
26th 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


Connecting...
'Life'

The Group's total sales volume of gas increases

1.8 times

in 2006

Our total connectable urban population reaches

39,073,000

The Chinese characters "Xin" and "Ao" mean "New" and "Profound" respectively. "New" implies exploration: continuous innovation that builds eternity. "Profound" reflects thorough knowledge: perfect quality that wins the future.

WANG Yusuo
Chairman

Connecting... 'XinAo'

Results of the Year

The Group continued to record substantial growth in its results for 2006. The revenue and profit attributable to shareholders for the year reached RMB3,396,536,000 and RMB379,617,000 respectively, representing increases of 65.1% and 40.3% over last year respectively. Earnings per share — basic increased by 32.8% to RMB40.5 cents.

During the year, the Group secured five new gas projects, which were located in Nanan City, Huian City, Shishi City and Jinjiang City in Fujian Province and Laian City in Anhui Province. As of the end of 2006, there were 64 city piped gas projects, and the connectable urban population increased by 20.6% to 39,073,000. Reaping from the advantage of possessed resources, the Group has instigated to develop compressed natural gas ("CNG") vehicle refuelling station ("refuelling station") business from 2002. Apart from acquiring large-scaled refuelling station business in Shanghai, the Group has also built up 15 refuelling stations in eight cities during the year. Consequently, the aggregate number of refuelling stations has been increased to 57, which fortifies the Group's gas sales volume and revenue in the long run.

During the year, the Group made piped natural gas connections to 451,072 residential households and 1,493 commercial/industrial ("C/I") customers (connected to gas appliances of a total installed designed daily capacity of 1,481,611 cubic meters). As of the end of 2006, the accumulated number of residential households and C/I customers of natural gas were 2,069,783 and 5,778 (connected to gas appliances of a total installed designed daily capacity of 4,372,540 cubic meters) respectively, and the accumulated number of residential households and C/I customers of other piped gas were 388,952 and 512 (connected to gas appliances of a total installed designed daily capacity of 651,112 cubic meters) respectively. The sales volume of gas for the year also grew tremendously by 1.82 times whilst the share of piped gas revenue over total revenue was raised drastically to 47.8%, revealing an economy of scale and the prosperous development of the Group, which consolidated the Group's long term recurring revenue in the future.

Financial Position

As at 31 December 2006, the Group's cash on hand was RMB1,567,552,000 (2005: RMB1,784,055,000), and total debts were RMB4,022,936,000 (2005: RMB3,654,669,000). The net gearing ratio (the ratio of net debt to equity excluding minority interest) was 80.3% (2005: 83.8%). Whilst the Group has changed from massive acquisition of new projects to boosting gas penetration rate in our existing projects, and the maturing gas projects also bring stable cash flow, there are sufficient financial resources to support the development of the Group in the long run.

Corporate Management

With a view to drawing on the best practical management experience of the corporations in the industry worldwide, so as to bring the Group's management quality in line with the state-of-the-art corporations in this field, the Group has joined force with IBM Global Services (China) Company Limited ("IBM") in 2006 to launch a consultation project on process streamlining and information system management. In June 2006, the total IT solutions project was commenced officially. Four subsidiaries were selected as the trial run units. The Group was the pioneer enterprise with parallel implementation of the enterprise management software SAP utilities solution, oil and natural gas industry solution and enterprise resource planning. The total IT solutions project was put into practice on 8 January 2007 as scheduled.

As of the end of 2006, the Group has gas projects across 14 provinces, municipalities and autonomous regions in the People's Republic of China ("PRC"). Therefore, the Group has established eight regional management centers (merging the nine centers in 2005 for reducing operation costs) to facilitate management of gas projects. To ensure achievement of the Group's targets and effective communication of the Group's strategy, the Group instigated a strategic performance management project effectively during the year. The project divides the Group's strategic target into strata for execution at each company and employee, enabling the transformation of targets into actions and enhancing the ability of strategy implementation in all aspects. During the instigation process, the Group's strategy has been reviewed with the stance and approach of strategic communication clarified. The strategic division of labour for each organisation level has also been confirmed. All these have strengthened the strategic co-ordination among functional departments and have provided a fundamental solution for transplanting strategic execution.

International Awards

The Company was awarded "Chinese Business 500" by Yazhou Zhoukan again during the year, making it the sixth consecutive year the Company gained this award. The Company's annual report 2005 was also awarded "Honourable Mention, Best Annual Report Awards" by The Hong Kong Management Association, which revealed that the Company's annual report has provided clear and accurate disclosure and has served the function of shareholder communication effectively. These awards also reflected the recognition of investors and professional institutions towards the Company's management quality and high degree of transparency. In future, management of the Group will endeavor to maintain and achieve beyond this outstanding performance and reputation that have been gained by the Company through challenging course.

Human Resources

As at the end of 2006, the Group had 13,355 employees (2005: 10,331), providing sufficient human resources to cater the need of the Group's development.

The Group endorses the principle of "based on people" and believes that healthy employee development is the key to the provision of satisfactory services to customers. Therefore, the Group offers learning and studying opportunities to employees as a kind of benefits and rewards, so as to encourage lifelong learning among employees.

The Group also tailor-makes practical career development plans for employees, creates open career paths for them and allows them to fully utilise their potential. With a view to facilitating the progress and growth of young employees, the Group provides competition for promotion, job rotation, on-the-job training and promotion channel development to young employees, which in turn ensure adequate human resources for the Group's sustainable and healthy development.

In light of ensuring clear understanding of the Group's development strategy and vision among employees, concerning employees' personal growth as well as encouraging employees' action on realisation of personal and corporate value, in 2007, the Group will implement employee satisfaction project in full force, aiming to swell both the degree of employees' satisfaction and the Group's benefits.

Prospects

Energy, being the important strategic resources for national economy and national security, acts an indispensable role in the course of modernisation. The use of clean energy and development of natural gas industry is an essential trend under the continuous development and energy structural adjustment in China economy. Natural gas is deployed by the PRC government as a major tool for energy structure enhancement and environmental protection. In 2004, the PRC government established a new energy strategy, which required a raise of natural gas ratio in energy structure. Whilst the demand of energy grows with time in association with the continuous rapid economic development in PRC, there will be stringent energy supply in all kinds continuously. The consumption structure of natural gas has been undergoing changes since 2005, with the percentage of natural gas used in chemical industry and urban areas against total natural gas usage above 60%. This consumption structure will be further improved under the rapid demand growth of natural gas in PRC. In future, natural gas will become the major fuel in the urban gas market in PRC. The urbanisation ratio will be raised from the existing level of 43%, to 55% – 60% by 2020. Natural gas industry in PRC has already come into its rapid development phase.

With the rapid development of the Group in the past few years, the Group has established its pioneering role and market position in the PRC gas industry. In view of facilitating the Group's development in the long run, the Group has conducted a scientific and rational adjustment on its development strategy timely in prudent manner. Instead of focusing on obtaining a large number of new gas projects, we shift our emphasis to boosting gas penetration rates in our existing projects, and exploring channels to provide bottled liquefied petroleum gas ("LPG") and other clean energy alternatives to the sub-urban areas around the existing project areas, transforming the Company from a high-growth company into a public utilities company gradually. The average gas penetration rate of the Group is 18.9%, and there is still a considerable room for growth before reaching the peak gas penetration rate of 70% to 80%. With the Group's coverage of 39,073,000 urban population as well as prosperous C/I customers base, it is expected that the Group is able to maintain high growing momentum even when the Group decreases the number of new project acquisitions immensely. In this regards, the Group's strategic adjustment is supported by concrete fundamentals, which facilitate the Group's continuous business development in the long run.

In recent years, apart from promoting connection service, the Group has also been actively developing C/I customers and refuelling stations, which involve users with much higher usage volume than residential users. The revenue structure of the Group has been enhanced accordingly with the proportion of one-off connection fee to the Group's total revenue falling continuously, in particular, from 76.8% in 2001 to 39.9% in 2006. Gas sales revenue has also increased drastically from 21.0% in 2001 to 47.8% in 2006. In the long run, gas sales and gas profit contributions will take over connection fee and become the major revenue and profit contributions to the Group. By the time, gas sales will also provide more stable revenue to the Group.

Stable and reliable natural gas source is essential to the Group's development strategy realisation. On top of full utilisation of long distance pipeline in PRC, the Group has also actively explored gas source by self production and has seek to merchandise international gas source. During the year, the Group has invested in the coal chemical project in Erdos, Inner Mongolia and utilises the rich coal resources there for dimethyl ether ("DME") production. Being a kind of gas fuels, DME is regarded as another clean energy apart from natural gas, which can be used as direct substitute for natural gas and LPG. The project of DME has received great support and encouragement from the PRC government. In the meantime, the early-stage construction work for this project is well in progress. It is expected that phase one of this project will come into operation in 2009 with an annual production capacity of 400,000 tons of DME. As a supplementary source for natural gas, DME can meet part of the Group's demand of gas source in future. At the same time, the liquefied natural gas ("LNG") processing factory located in Weizhou Island, Beihai, Guangxi invested by the Group has come into production in 2006. This factory is the fourth LNG processing factory in PRC. The factory has started to provide natural gas to the Group's projects in Guangdong province and Guangxi in light of providing additional natural gas source to these projects and lowering the purchasing cost.

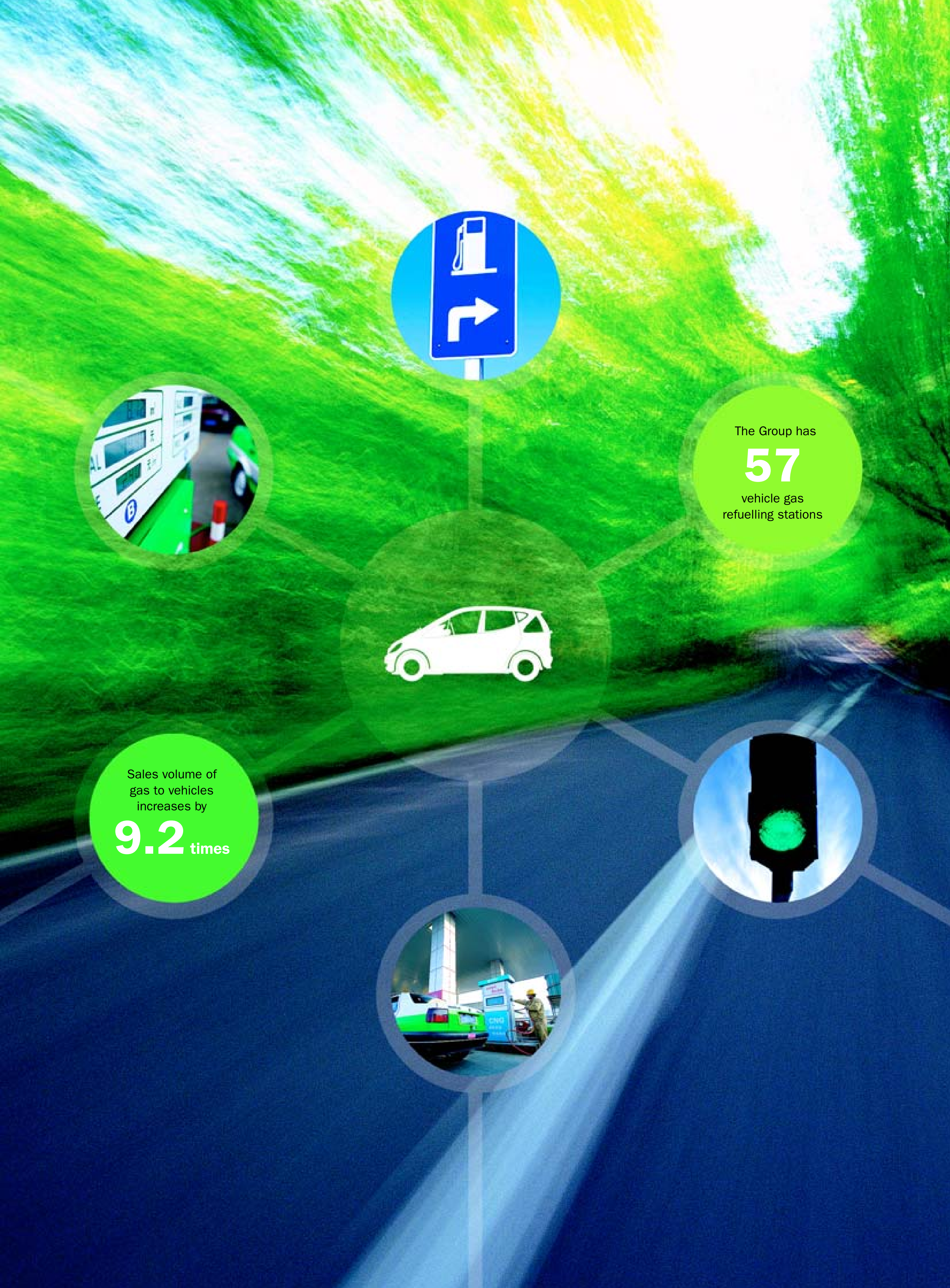
Moreover, the Group has established Xinao Energy Sales Company Limited during the year and obtained the import and export right of natural gas, LPG, methanol, DME and various kinds of gas materials, making the Group the fourth company having the import/export right of natural gas after the PRC's three oil and gas giants (PetroChina Company Limited, China Petroleum & Chemical Corporation, CNOOC Limited). It turns a new leaf for the Group's future international energy trading business and strengthens the gas source security for the Group's gas projects.

In 2007, the Group will enhance management and lower operational cost through the promotion and implementation of strategic development, total IT solutions and balanced score card. In addition, the Group will continue to stick to the customer-oriented principle, and to enhance customers' satisfaction. In association with the rapid development of the Group's business, Xinao Gas has already established its market position. The industry has entered the stage of mergers and acquisitions, which provides opportunities to the Group. Whilst encountering these market opportunities, the Group would evaluate every investment decision with the most prudent attitude. In light of minimising investment risk, every project will undergo the most prudent and stringent feasibility study before an investment decision is made. In future, the Group will actively implement the distribution strategy of clean energy and raise the operational results in all aspects. In addition to contributing to the environmental protection business in PRC, the Group shall endeavour to maximise the benefits of shareholders, customers, employees, society and the corporation.

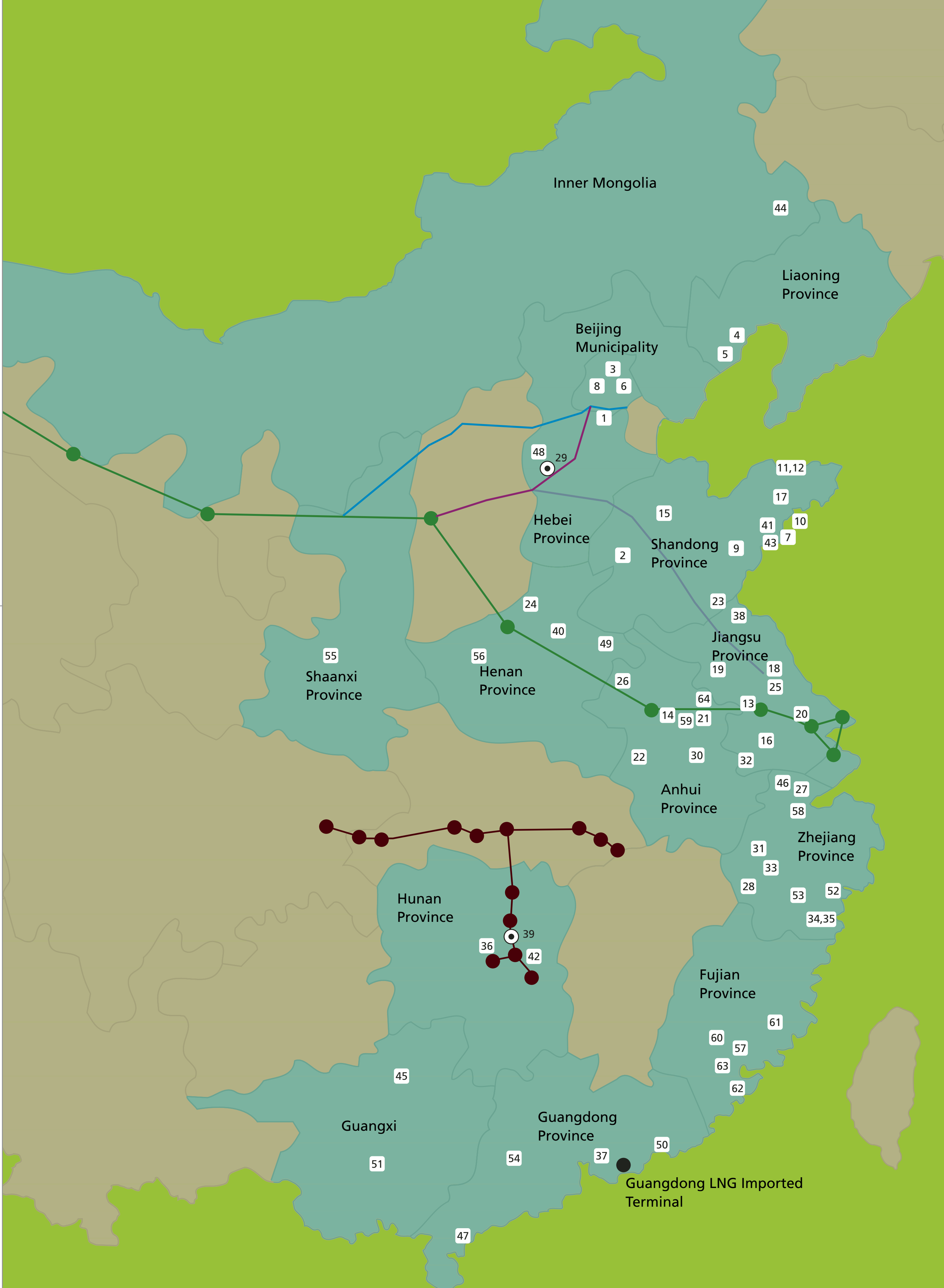
Wang Yusuo
Chairman

19 April 2007

Connecting... 'Power'


The Group has
57
vehicle gas
refuelling stations
Sales volume of
gas to vehicles
increases by
9.2 times

OPERATIONAL LOCATIONS



	Operational Location	Connectable Urban Population
1	Langfang	445,000
2	Liaocheng	589,000
3	Miyun	151,000
4	Huludao	446,000
5	Xingcheng	131,000
6	Pinggu	115,000
7	Huangdao	300,000
8	Changping	108,000
9	Zhucheng	305,000
10	Chengyang	469,000
11	Yantai Development Zone[1]	–
12	Yantai	1,743,000
13	Gaoyou	153,000
14	Bengbu	905,000
15	Zouping	192,000
16	Taixing	212,000
17	Laiyang	254,000
18	Yancheng	765,000
19	Huaian	1,151,000
20	Haian	189,000
21	Chuzhou	245,000
22	Luan	323,000
23	Rizhao	300,000
24	Xinxiang	939,000
25	Xinghua	150,000
26	Bozhou	215,000
27	Haining	223,000
28	Quzhou	176,000
29	Shijiazhuang	2,313,000
30	Chaohu	210,000
31	Lanxi	119,000
32	Wujin	982,000
33	Jinhua	109,000
34	Wenzhou[2]	–
35	Longwan	316,000
36	Xiangtan	718,000
37	Dongguan	7,507,000
38	Lianyungang	702,000
39	Changsha	2,086,000
40	Kaifeng	829,000
41	Jiaozhou	282,000
42	Zhuzhou	793,000
43	Jiaonan	289,000
44	Tongliao	433,000
45	Guilin	722,000
46	Huzhou	205,000
47	Zhanjiang	589,000
48	Luquan	88,000
49	Shangqiu	1,459,000
50	Shantou	1,362,000
51	Guigang	350,000
52	Huangyan	579,000
53	Yongkang	233,000
54	Zhaoqing Development Zone	63,000
55	Xianyang	529,000
56	Luoyang	1,474,000
57	Quanzhou	1,003,000
58	Xiaoshan	356,000
59	Fengyang	103,000
60	Nanan	376,000
61	Huian	141,000
62	Shishi	112,000
63	Jinjiang	365,000
64	Laian	82,000
		39,073,000

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 2006

	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)
Piped gas project					
1	Langfang	1993	339	3	410,000
2	Liaocheng	2000	415	2	100,000
3	Miyun	2000	157	3	168,000
4	Huludao(3)	2000	194	1	30,000
5	Xingcheng	2002	–	–	–
6	Pinggu	2001	124	1	72,000
7	Huangdao	2001	226	1	72,000
8	Changping	2001	113	1	102,000
9	Zhucheng	2001	112	1	38,000
10	Chengyang	2001	217	3	400,000
11	Yantai Development Zone	2001	10	1	30,000
12	Yantai	2004	344	2	340,000
13	Gaoyou	2001	34	1	5,000
14	Bengbu	2002	190	1	96,000
15	Zouping	2002	49	1	130,000
16	Taixing	2002	89	2	396,000
17	Laiyang	2002	118	1	72,000
18	Yancheng	2002	114	1	30,000
19	Huaian	2002	174	1	70,000
20	Haian	2002	47	1	4,000
21	Chuzhou	2002	239	1	270,000
22	Luan	2003	76	1	60,000
23	Rizhao	2002	150	1	300,000
24	Xinxiang	2002	266	1	500,000
25	Xinghua	2002	49	1	50,000
26	Bozhou	2003	55	1	46,000
27	Haining	2002	101	2	396,000
28	Quzhou	2002	70	1	180,000
29	Shijiazhuang	2002	431	1	602,000
30	Chaohu	2003	45	1	120,000
31	Lanxi	2003	16	–	–
32	Wujin	2003	397	2	430,000
33	Jinhua	2003	70	2	210,000
34	Wenzhou	2003	33	1	120,000
35	Longwan(4)	2004	–	–	–
36	Xiangtan	2003	134	2	180,000
37	Dongguan	2003	282	2	384,000
38	Lianyungang	2003	317	2	200,000
39	Changsha	2003	667	6	1,633,000
40	Kaifeng	2003	516	1	100,000
41	Jiaozhou	2003	101	1	40,000
42	Zhuzhou	2003	248	2	100,000
43	Jiaonan	2003	154	1	120,000
44	Tongliao	2004	40	1	50,000
45	Guilin	2004	71	–	–
46	Huzhou	2004	90	1	620,000
47	Zhanjiang	2004	146	1	360,000
48	Luquan	2004	16	1	1,800,000
49	Shangqiu	2004	65	1	240,000
50	Shantou	2004	30	1	160,000
51	Guigang	2004	39	1	100,000
52	Huangyan	2005	64	–	–
53	Yongkang	2005	37	1	120,000
54	Zhaoqing Development Zone	2005	9	1	25,000
55	Xianyang	2001	343	1	410,000
56	Luoyang	2006	586	2	1,000,000
57	Quanzhou	2006	33	–	–
58	Xiaoshan	1994	106	–	–
59	Fengyang	2005	1	–	–
60	Nanan	2006	9	–	–
61	Huian	2006	10	–	–
62	Shishi	2006	–	–	–
63	Jinjiang	2006	44	1	72,000
64	Laian	2006	12	–	–
Other project					
	Shanghai (CNG)	2002	–	–	–
	Shanghai (LPG)	1997	–	–	–
Total			**9,234**	**74**	**13,563,000**

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 number of piped gas customers (including natural gas)			Number of vehicle gas refuelling stations
Residential households	Commercial/industrial customers (sites)	Installed designed daily capacity for commercial/ industrial customers (m^3)	
108,308	498	269,454	2
57,145	202	69,052	–
25,824	86	90,799	–
71,540	175	74,962	–
–	–	–	–
16,004	96	50,207	–
57,502	80	146,896	–
28,150	141	33,887	–
19,099	36	8,282	–
48,401	95	85,613	–
–	1	12,000	–
158,827	255	230,769	2
7,747	64	6,196	–
50,903	86	149,608	2
11,573	31	17,159	–
13,206	94	46,646	–
22,366	28	12,434	–
34,533	157	40,843	1
42,000	53	60,094	–
6,888	52	15,057	–
26,293	72	154,509	1
23,188	22	3,741	–
23,739	43	13,763	–
92,892	291	108,539	1
5,198	45	6,922	–
7,794	27	8,274	–
16,211	34	55,946	–
18,336	28	16,629	–
327,107	299	412,786	12
13,178	35	11,916	–
2,644	12	828	–
39,422	286	363,216	–
26,894	73	34,495	–
4,660	17	25,504	–
–	–	–	–
60,624	110	51,085	–
65,180	198	131,612	–
76,336	160	80,739	1
232,031	388	517,243	–
111,004	642	122,123	–
18,916	41	37,622	–
115,235	313	305,218	–
14,148	9	28,130	–
12,934	15	8,051	–
22,464	23	11,090	–
22,517	28	70,930	–
23,216	66	27,671	–
1,966	–	–	–
10,271	36	4,864	–
15,557	43	16,600	–
4,796	10	8,946	–
16,925	30	3,644	–
3,391	8	11,001	–
–	3	2,165	–
131,613	335	404,420	3
54,239	273	450,000	–
3,643	2	12,000	–
26,580	24	1,504	–
17	4	65,750	–
108	–	–	–
505	1	7,800	–
1,164	–	–	–
5,783	14	6,418	–
–	–	–	–
–	–	–	4
–	–	–	28
2,458,735	**6,290**	**5,023,652**	**57**

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

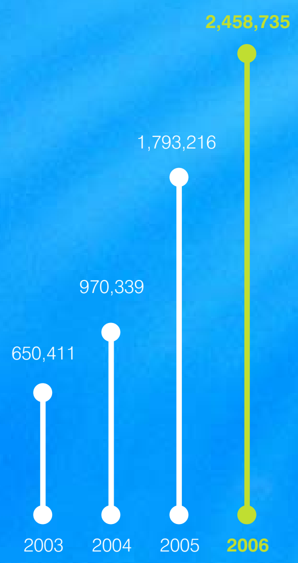
(4) The project in Longnan is operated by Wenzhou Xinao. The operational data is included in Wenzhou.

OPERATIONAL AND FINANCIAL SUMMARY

Operational

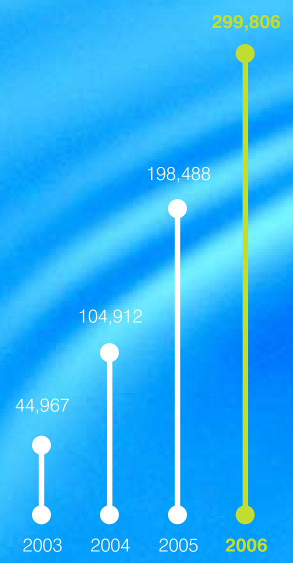
Accumulated Number of Piped Gas Residential Households

Number pf households



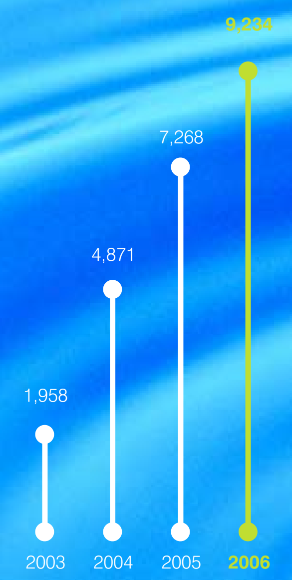
Units of Piped Gas Sold to Residential Households

'000m³



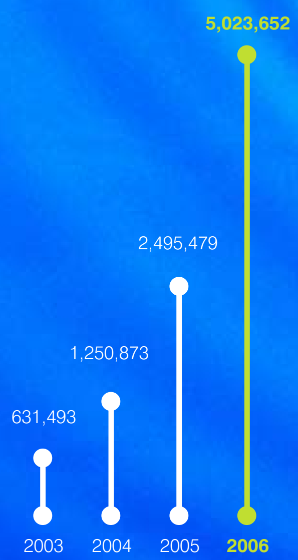
Length of Existing Intermediate Pipelines and Main Pipelines

km



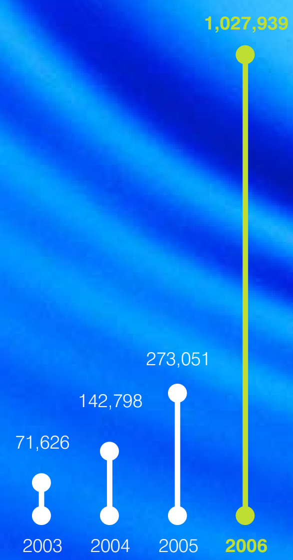
Accumulated Installed Designed Daily Capacity for Commercial/Industrial Customers

m³



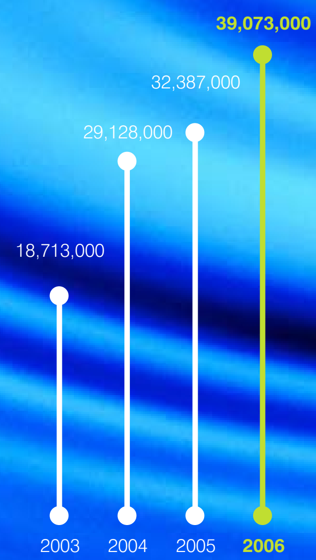
Units of Piped Gas Sold to Commercial/Industrial Customers

'000m³



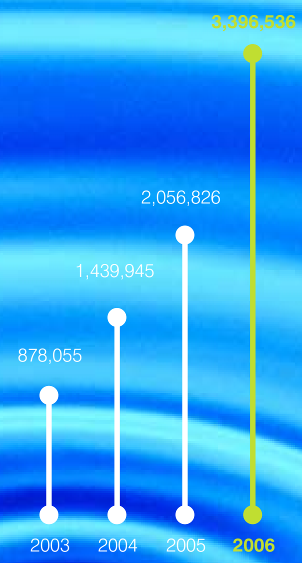
Coverage of Connectable Urban Population

Persons



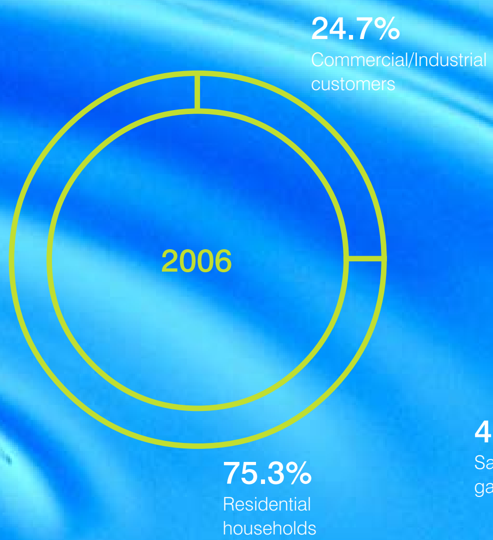
Financial

Turnover
RMB'000

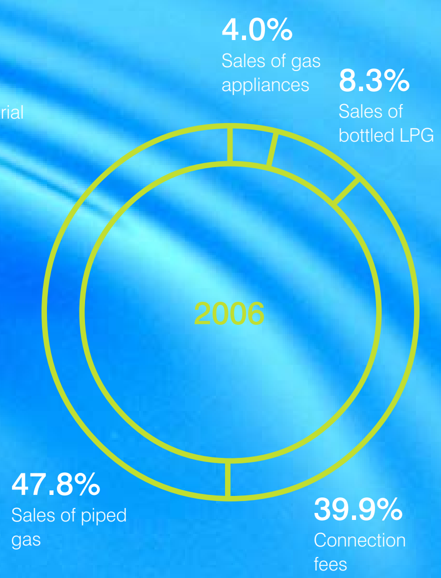


Turnover Breakdown by Customer

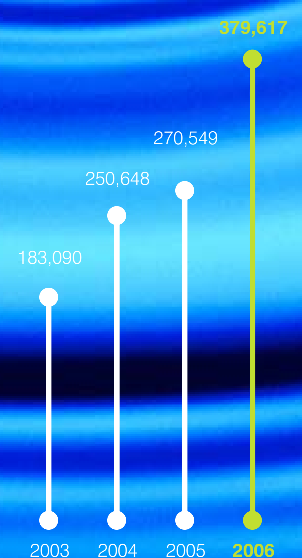
Connection Fees



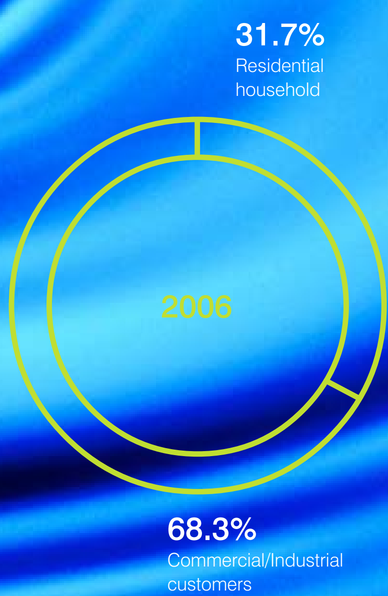
Turnover Breakdown by Segment

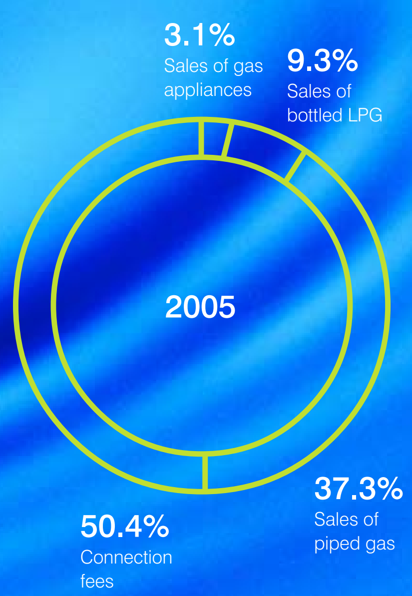


Profit Attributable to Shareholders
RMB'000



Sales of Piped Gas





COMPARISON OF EIGHT-YEAR RESULTS

	2006	2005 (Restated)	2004
Highlights (Group)			
Number of connected households (Piped Gas)	2,458,735	1,793,216	970,339
Installed designed daily capacity for commercial/industrial customers (m^3) (Piped Gas)	5,023,652	2,495,479	1,250,873
Units of piped gas sold			
Residential households (m^3)	299,806,000	198,488,000	104,912,000
Commercial/industrial customers (m^3)	1,027,939,000	273,051,000	142,798,000
Length of existing pipelines [(1)] (km)	9,234	7,268	4,871
Number of natural gas processing stations	74	64	51
Daily capacity of existing natural gas processing stations (m^3)	13,563,000	8,786,000	7,493,000
Turnover & Profit (RMB'000)			
Turnover	3,396,536	2,056,826	1,439,945
Profit before taxation	533,632	400,540	313,108
Income tax expenses	(49,772)	(38,343)	(9,196)
Profit for the year	483,860	362,197	303,912
Minority interests	(104,243)	(91,648)	(53,264)
Profit attributable to equity holders of the Company	379,617	270,549	250,648
Dividends	75,923	45,440	25,254
Assets & Liabilities			
Non-current assets	6,329,211	4,390,976	3,013,077
Associate	340,173	76,571	61,025
Jointly controlled entities	295,530	235,432	170,499
Current assets	3,070,092	2,851,725	1,608,829
Current liabilities	(2,699,439)	(1,683,310)	(1,261,830)
Non-current liabilities	(3,467,139)	(3,112,245)	(1,230,748)
Net assets	3,868,428	2,759,149	2,360,852
Capital & Reserves			
Share capital	102,825	95,819	91,954
Reserves	2,953,835	2,135,667	1,830,610
Equity attributable to equity holders of the Company	3,056,660	2,231,486	1,922,564
Minority interests	811,768	527,663	438,288
	3,868,428	2,759,149	2,360,852
Earnings per share	40.5 cents	30.5 cents	29.6 cents

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

2003	2002	2001	2000	1999
650,411	210,850	108,001	66,253	30,607
631,493	365,113	269,747	139,302	104,026
44,967,000	19,123,000	14,089,000	5,645,000	2,893,000
71,626,000	30,407,000	20,496,000	11,259,000	8,890,000
1,958	791	464	257	143
35	25	12	7	2
4,709,000	3,178,000	837,800	561,800	100,000
878,055	544,492	240,560	122,270	52,923
199,242	156,058	99,598	50,370	25,572
(2,957)	(12,324)	(11,081)	(6,976)	(3,836)
196,285	143,734	88,517	43,394	21,736
(13,195)	(15,818)	(9,250)	(6,018)	(6,653)
183,090	127,916	79,267	37,376	15,083
–	–	–	30,529	–
2,104,824	925,307	415,824	260,999	96,920
10,394	–	–	–	–
22,105	2,500	–	–	–
960,602	842,558	307,481	174,032	161,784
(1,032,785)	(456,841)	(201,195)	(334,507)	(147,667)
(587,594)	(276,030)	(51,945)	(20,915)	(15,000)
1,477,546	1,037,494	470,165	79,609	96,037
78,122	78,122	66,462	–	–
1,059,977	861,355	386,199	69,830	57,393
1,138,099	939,477	452,661	69,830	57,393
339,447	98,017	17,504	9,779	38,644
1,477,546	1,037,494	470,165	79,609	96,037
24.8 cents	18.0 cents	14.3 cents	8.9 cents	3.6 cents


Connecting...
'Care'

Customers can
dial 24-hour hotline

95158

to be connected to us

Xinao Gas will continue to pursue innovation and excellence in its unrelenting efforts to become a first class clean energy distributor in the PRC with international recognition.

Industry Review

Energy consumption pattern in PRC

The use of clean energy and development of natural gas industry is an essential trend under the continuous economic development and energy structural adjustment in the People's Republic of China (the "PRC"). Natural gas is deployed by the PRC government as a major tool for energy structure enhancement and environmental protection. In 2004, the PRC government established a new energy strategy, which required a raise of natural gas ratio in energy consumption structure to 7% by 2010. In the future, the PRC government will actively invest in natural gas infrastructure construction, including 50,000 km natural gas pipeline, tens of million tons of liquefied natural gas ("LNG") import terminals and million tons of LNG transportation capacity. About 10 LNG import terminals will be built at the Bohai area, the Yangtze River Delta, and the Pearl River Delta and the capacity of the LNG import facilities will reach 50 million tons. It is expected that by 2020, natural gas consumption in the PRC will reach 220 billion cubic meters. The development of the PRC natural gas industry has come into full swing.

Whilst the annual growth rate for petroleum output in the PRC is only 2%, the natural gas output is growing at the high speed of about 20% per annum, and it is estimated that the natural gas output for 2007 is about 72 billion cubic meters. It is forecasted that natural gas supply in the PRC will have planned and comprehensive trends: firstly, West-East gas transfer, high-quality natural gas is transferred from the west to coastal areas in the east (its current annual transmission capacity is 12 billion cubic meters, and such capacity is expected to increase further in the future); secondly, North-South gas transfer, natural gas from the north and even Russia is transferred to the Bohai area, the Yangtze River Delta and the Pearl River Delta; thirdly, offshore gas to land, on the one hand, natural gas produced by the PRC in offshore areas is transferred to coastal areas (it is estimated that the annual offshore gas capacity of the South China Sea, the Bohai Sea and the East China Sea will reach 10 billion cubic meters), and on the other hand, imported LNG is supplied to coastal areas by precedence (the Guangdong LNG Terminal has commenced operation, whilst the LNG projects in Fujian Province, Zhejiang Province and Shanghai Municipality have commenced development and other coastal provinces and cities are also making plans, and together with offshore gas to land, it will form a coastal natural gas supply network by 2020); nearby supply, areas surrounding resource pools utilise natural gas nearby; fourthly, diversified gas sources, to increase natural gas reserve by advanced exploration techniques and to raise import volume of natural gas through international cooperation.

During the 11th Five-Year Plan period, there is more rapid development on clean energy and a continuous rapid growth on natural gas, and it is expected that the coal-based clean energy industry will usher in a new development area full of vitality. The fast-growing natural gas market will deliver major opportunities for the Group. The Group will make a correct assessment of the situation and seize the opportunities to continue in contributing to environmental protection of the PRC and creating value for shareholders in the long run.

PRC policies on city piped natural gas market

During the year, the PRC government continues to encourage the development of the non-state-owned economy. Since the issue of "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 energy distribution, in particular city piped natural gas in the PRC has been maturing and getting enhanced.

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, develop oil substitutes steadily, tighten controls on environmental pollution and ensure protection to the natural ecosystem. During the year, various government departments, including the National Development and Reform Commission, the State Energy Bureau and the State Administration of Taxation, set forth various policies for more stringent measures on pollution and encouraging the development and utilisation of clean energy and sustainable utilisation of existing resources, including natural gas, vehicles using clean fuels in the city, coal-based clean fuels. The current PRC government policies strongly encourage and support the development of piped gas market.

Business Review

The principal businesses of the Group are the construction of gas pipelines, the sale of piped gas, operation of natural gas refuelling stations, the sale of bottled liquefied petroleum gas ("LPG") and the sale of gas appliances.

Construction of gas pipelines

During the year, following the Group's strategic adjustments, one of the Group's main focuses for 2006 and the coming few years is to boost gas penetration rate continuously.

As of 31 December 2006, the Group's gas penetration rate was 18.9% which is higher than 2005. With the rapid growth in the number of connected residential households and commercial and industrial ("C/I") customers in the piped gas projects as well as the vehicle gas refuelling stations ("refuelling station"), the Group's natural gas sales volume also increased remarkably. As the increase of gas sales is faster than growth in connection fee, in spite of the strong growth in connection fees, the Group expects that the proportion of gas sales to total turnover will increase, and gas sales will take over as the major source of revenue and profit.

Residential customers

During the year, the Group followed its development strategy and continued to devote lots of efforts to connecting more residential households in the project cities. The Group's high-level piped gas business is a natural monopoly in nature. The main connection target of the Group will continue to be the residential households in new and existing buildings in the area covered by our pipeline network.

Flats connected to piped natural gas have become popular and are preferred by new home buyers. Also, there has been increased consumer awareness of the advantages of cleanliness, economy and convenience in natural gas over other main fuels used in the cities. These boosted the connection business of the Group and lowered the Group's costs for developing new customers.

During the year, the Group made natural gas connections for 451,072 new residential households, 34.8% more than last year. The average connection fee paid by households was RMB2,784. The substantial growth in connection proves once again the Group's ability to increase gas penetration rates in the project cities.

As at the end of 2006, the Group had accumulated 2,069,783 natural gas residential customers, and the natural gas penetration rate was 15.9%. If the other piped gas residential customers were also included, the Group had accumulated 2,458,735 piped gas residential customers, and the piped gas penetration rate was 18.9%. As the population coverage in 2006 grew by 6,686,000, if this factor is set aside, the Group's penetration rate against last year's projects has increased to 22.7%. According to the industry experience, penetration rate of piped gas can reach above 80% ultimately. In this connection, the Group still has a large pool of potential customers for new connections.

Commercial/industrial customers

During the year, the international oil price continued to soar, and the supply of coal, electricity and oil in the PRC continued to be tight. 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 as primary energy source and require new commercial or industrial projects to use clean energy and change some of the existing coal-burning furnaces into natural gas-burning furnaces, which expedite natural gas connection for C/I customers. Apart from government support, there will be more and more natural gas sources available, it facilitates the Group to connect more large volume C/I customers.

Furthermore, the Group, together with International Finance Corporation (the private sector arm of the World Bank Group) ("IFC") and Industrial Bank Co., Limited ("Industrial Bank"), has launched the "China Utility-Based Energy Efficiency Finance Program" during the year to promote the use of clean energy among C/I customers. The program allows IFC to provide financial guarantee to Industrial Bank, and in turn Industrial Bank will have confidence to offer loans to the C/I customers of Xinao Gas. The C/I customers may use the loans for paying connection fees, gas engineering fees and purchasing gas related equipment. It is IFC's first program of the kind in Asia and attracts a lot of attention from the World Bank and environmental funds in the world. The Group has decided to have 12 project companies to be the first batch participating in the program.

During the year, the Group provided natural gas connections for 1,493 new C/I customers (connected to gas appliances of a total installed designed daily capacity of 1,481,611 cubic meters), 41.7% more over last year. The average connection fee was RMB281 per cubic meter.

As at the end of 2006, the Group had accumulated 5,778 natural gas C/I customers (connected to gas appliances of a total installed designed daily capacity of 4,372,540 cubic meters). If the other piped gas users were also included, the Group had accumulated 6,290 piped gas C/I customers (connected to gas appliances of a total installed designed daily capacity of 5,023,652 cubic meters).

New projects

The Group has started its strategic adjustment in 2005 to have sustainable development in the long run. The Group has shifted the emphasis from acquiring a large number of new gas projects to boosting gas penetration rates in our existing projects, developing refuelling station business and exploring channels to provide bottled LPG and other clean energy alternatives to the sub-urban areas around the existing projects, which will increase long term natural gas sales. As there will be more piped natural gas sources in the future, the Group will continue to obtain some quality projects in large scale or projects that have strategic significance for the Group. During the year, the Group obtained five projects, namely, Jinjiang, Shishi, Nanan and Huian in Fujian Province, and Laian in Anhui Province. The Group's number of projects increased to 64 this year from 59 last year, and the connectable population grew by 20.6% to 39,073,000 (approximately 13,024,000 households) by the end of 2006 from 32,387,000 (approximately 10,796,000 households) last year. This further strengthens the Group's long term revenue source and fortifies the Group's leading role in the industry. Among the newly acquired projects, the four projects in Fujian Province were new projects obtained in Fujian Province following Quanzhou in 2005. They are also closed to the Quanzhou Project. Laian Project in Anhui is also close to the Group's existing projects in Bengbu and Chuzhou, and like Fengyang Project last year, it is also a successful example of the Group's development model, which is the expansion from core project to periphery cities and towns.

Sale of piped gas

During the year, the Group's total sales volume of piped gas was 1,327,745,000 cubic meters, 1.8 times more than last year, and 299,806,000 cubic meters and 1,027,939,000 cubic meters piped gas was sold to residential households and C/I customers respectively, representing increases of 51% and 2.8 times respectively over last year. The sales volume of gas to C/I customers made up 77.4% of the total volume of gas sales, showing that the Group has large volume users to support the large gas sale. It is expected that the proportion of sales volume to C/I customers will continue to grow and allow the Group to enjoy economy of scale in gas sale and stable long term revenue.

With even more plentiful gas sources and the growth in various customers of the Group, gas sales revenue has become the major revenue source, and its proportion in future revenue will continue to get larger. With more and more maturing projects, gas sales will have increasingly higher contribution to the Group's profit. Such enhanced revenue structure will bring in stable long term cash flow to the Group. As the gas sales volume for C/I customers is much higher than residential households, the Group will continue to develop the markets of both residential households and C/I customers.

Compressed natural gas ("CNG") vehicle gas refuelling station

Since vehicle emission is now a major source of pollution in the large cities in the PRC, the PRC governments promote the policies on converting vehicles to using clean energy. This will further accelerate the refuelling station business. Besides, the price of natural gas is cheaper in comparison with the vehicle-used gasoline in the PRC. Therefore, through developing refuelling station business, the Group can raise the distribution volume and revenue on clean energy in future on top of contributing to the environmental protection business. In this regard, refuelling station business is one of the Group's business focuses in this year and the future, and it is expected that the revenue from refuelling station business will become one of the Group's major revenue sources in the long run. During the year, the Group has collaborated with Shanghai Communication University and Shanghai Tongji University for a research on the development and application of alternative vehicle-used gas, such as dimethyl ether ("DME") and hydrogen.

Apart from converting 5,726 taxis and 350 buses into vehicles using CNG in existing project cities, the Group has also keenly developed refuelling station business in other areas. During the year, the Group has obtained approval from local governments of Xingtai City and Handan City of Hebei Province, Nantong City and Zhenjiang City of Jiangsu Province, and Xinzhou City of Shanxi Province to build 43 CNG refuelling stations. The Group also established Nantong Xinao Vehicle Gas Development Company Limited and Zhenjiang Xinao Vehicle Gas Development Company Limited in Nantong City and Zhenjiang City respectively, which would specialise in the business of vehicle gas sales.

At the same time, the Group has successfully acquired Shanghai Jiuhuan Automobile Liquid Gas Development Joint-Stock Limited Company and Shanghai Jiuhuan Automobile Natural Gas Development Company Limited. These two companies separately own 32 refuelling stations in aggregate, comprising about half of the refuelling stations and the vehicle gas sales volume in Shanghai. The successful acquisition of these companies has not only increased the number of refuelling stations immensely, but also led the Group's way into the Shanghai market, providing a foundation for the crystallization of strategic target in future.

As at year end, the Group has obtained government approval of 212 refuelling stations in aggregate, There are 57 refuelling stations constructed/acquired and in operation.

Gas source

Security of natural gas source is the key factor for the development of the Group in the long run. Apart from signing take-or-pay contracts with suppliers at West-East Pipelines, Zhongxian-Wuhan Pipelines and Guangdong LNG Terminal, the Group has also continued the development of alternative energy source for natural gas. During the year, the Group has invested in Erdos, Inner Mongolia together with Xinao Group Company Limited and Xinneng Investment Group Limited to utilise the rich coal resources and clean production technique for the production of DME, which is a clean fuel and can be used as direct substitute for LPG and diesel. It is expected that phase one of this project will come into operation in 2009 with an annual production capacity of 400,000 tons of DME. Moreover, the Group has collaborated with renowned tertiary institutions including Shanghai Communication University on research about the application technology for substituting natural gas with DME. On top of promoting the use of DME among residential customers and C/I customers, there are also active promotion on vehicle used fuel.

In addition, the construction of the LNG project in Weizhou Island, Beihai, Guangxi was completed, and phase one of the project has come into operation. It is the fourth LNG plant in the PRC. The plant will mainly supply LNG to the Group's projects in the south to meet the gas demand of the projects and further reduce the purchase cost of gas.

Phase one of Guangdong LNG project, which is the first import LNG project in PRC, has come into operation on 28 June 2006. A take-or-pay contract with a term of 25 years has been signed in the Phase one of the project with the upstream supplier in Australia. The Dongguang Project makes up an important part of the Guangdong LNG project. In early August 2006, upstream piped natural gas supply commenced for the Group's project Dongguan Xinao Gas Company Limited ("Dongguan Xinao"). Supply to customers has come into operatin on 28 September in the same year, providing supportive condition for connection with prosperous C/I customers under Dongguang Xinao project.

With a view to broadening energy purchasing channel and to crystallising the Group's strategic targets of energy distribution, the Group has been actively seeking international purchase of clean energy. The Group has established Xinao Energy Sales Company Limited during the year and obtained the import and export right of natural gas, LPG, methanol, DME and various kinds of gas materials, making the Group the fourth company having the import/export right of natural gas after the PRC's three oil and gas giants, which has paved the way for the Group's international energy trading business.

In 2006, the Group has established the energy distribution system with main channels on road and railway transportation through Xinao Energy Logistics Company Limited. The system sets up a commercial value chain along the line from energy purchase, energy logistics to energy distribution serving end-users. It serves as an effective solution for gas source issue, raises the commercial value of the Group, broadens the source of profit, and further secures gas supply.

At the same time, the Group has invested capital and resources to strengthen the gas supply system and contingency supply system. During the year, additional 58 LNG trucks were purchased, raising the total number of trucks to 170 with a total one-time transmission capacity of 4,086,800 cubic meters. Moreover, on stable gas supply security, the Group is able to get accurate figures on gas stock level and information on demand and supply by using information technology and logistic information system. This raises the normal supply capability and contingency supply capability.

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 newly-connected residential customer will receive a stored-value card and is required to prepay for the gas. This system can totally eliminate the possibility of bad debts and save huge administrative expenses, thus enhancing the Group's cash flow.

Starting from 2004, some of the Group's project companies started to cooperate with local banks for collection of gas usage charges. The widespread network resources of the banks have fostered satisfactory effectiveness in gas usage charges collection. During the year, there is increasing number of enterprises under the Group cooperating with local banks for collection of charges. The Group has benefited from the reduction of the corporate administrative expense whilst the local banks could utilise the Group's customer base for business development, which creates a win-win situation.

Sale of bottled LPG

During the year, the Group sold 58,136 tons of bottled LPG (2005: 45,179 tons), increased by 28.7% over last year. The operating profit of bottled LPG increased from RMB3,960,000 in 2005 to RMB10,769,000 this year.

In association with the Group's strategic adjustment, the Group has fully utilised its corporate branding, the capacity of infrastructure in urban centre and management resources for expanding the construction of distribution channels to the suburban areas. Riding on DME, the clean fuel with costing advantage, the Group has expanded its shares in the energy distribution market. In 2006, the Group has made distribution of LPG as a component of the Group's strategy.

During the year, the Group has joined force with Roland Berger Strategy Consultants Co., Ltd., a consultation company with international reputation, to increase revenue from the suburban and agricultural village market with huge population riding on the technique development of substituting LPG by DME. The project also broadens customers base, crystalises a rational business structure and expedites the realization of clean energy distribution strategy.

Sale of Gas appliances

The Group sells cooking stoves, water boilers, heaters and stored-value card gas meters. The Group produces stored-value card gas meters itself, most of which are used by the Group in its own connection business, which can lower the average cost of gas meters. The Group also sells gas meters to other gas distributors, which generated additional income for the Group.

Gross and net profit margins

In 2006, the Group's overall gross and net profit margins were 14.2% and 35.1% respectively, representing drop of 2.4% and 3.4% in comparison with last year correspondingly. One of the major causes for the drop was the change in the Group's revenue structure. As the Group has been increasing gas penetration rates, the share of piped gas sales revenue has increased drastically from 37.4% last year to 47.8%, whereas the share of connection fee has fallen immensely from 50.2% to 39.9%. Notwithstanding the satisfactory growth of both piped gas sales revenue and connection fee, the higher profit margin of connection fee in comparison with piped gas sales drives the Group's gross and net profit margin to a downward track under the change of revenue structure. Such trend will continue until the revenue structure becomes relatively stable. Yet, this reveals that the Group's revenue structure has been further enhanced through the gradual changes from relying on one-off connection fee to recurring piped gas sales which is stable in long term.

Another reason for the drop of profit margin comes from the adoption of new accounting standard. In particular, the options granted by the Group to the senior management and the convertible bonds issued in 2004 has led to the expenses of RMB57,370,000 and RMB4,392,000 respectively, both amounts were non-cash expenses but recorded as reserves, which reduced the Group's profit directly.

Advanced safety management system

The Group has maintained good record on safe operation and put paramount priority on safe operation always. During the year, the Group drew on the experience from the advanced associates in gas business in United Kingdom ("UK"), enhanced safety management manual, operation management manual and contingency manual, and restructured the technical quality safety department into asset management department and health, safety and environmental management office. Accordingly, an effective monitoring and control system has been established swiftly. The Group set up a safety monitoring expertise team, which would deploy measures such as random checking and sudden visit to strengthen monitoring effectiveness. Other measures including the establishment of safety information briefing channel and timely safety check reporting, conducting seminars on dangerous point recognition for alleviating safety risk. In addition, three enterprises including Dongguan Xinao have established geographical information system.

During the year, the Group continued the development of the gas professional training centre, which was established together with a UK Company, Utilise Training & Development Solutions Limited to conduct trainings and the professional qualification recognitions, with an aim to enhance the professional qualification and expertise of the employees for provision of good services to customers. Riding on the trainings and the professional qualification recognition framework of Levels 1 to 3, the Level 4 has been introduced during the year to further develop outstanding employees, so as to further enhance operational safety level and efficiency. During the year, the training center conducted 20 sessions of training courses, bringing the accumulated number of employees passing Occupational Qualification Examinations ("Examinations") to around 1,800. In 2007, the Group will introduce Level 5 (the highest level) Examinations, as well as the training and qualification recognition to foster the safety technique and quality of employees and ensure safe operation.

Outstanding management

With a view to drawing on the best practical management experience of the corporations in the industry worldwide, in 2005, the Group has joined force with IBM Global Services (China) Company Limited ("IBM") to launch a consultation project on process streamlining and information system management. Under the early stage of process streamlining, the total IT solutions project was commenced officially in June 2006. Four subsidiaries were selected as the trial run units, with project teams comprising experienced employees being set up for project implementation in full swing. The Group was the first enterprise with parallel implementation of the enterprise management software SAP utilities solution, oil and natural gas industry solution and enterprise resource planning. The total IT solutions project was put into practice on 8 January 2007 as scheduled. It is expected that the total IT solutions project will be implemented in full force by 2009.

To ensure effective communication of the Group's strategy and to enhance the ability of strategy execution, the Group instigated a strategic performance management project effectively during the year. The project emphasises development of strategic solution capability among fundamental units, effective communication of the Group's strategy along the organisation structure pyramid, and the establishment of the cycle of strategy-performance-motivation. Under this project, the Group's strategy has been clarified, the review and configuration work for strategy diffusion among Group members have also commenced, which have provided a fundamental solution for transplanting strategic execution.

The Company was awarded "Chinese Business 500" by *Yazhou Zhoukan* again during the year, making it the sixth consecutive year the Company gained this award. The Company's annual report 2005 was also awarded "Honourable Mention, Best Annual Report Awards" by The Hong Kong Management Association, which revealed that the Company's annual report has provided clear and accurate disclosure and has served the function of shareholder communication effectively. These awards also reflected the recognition of investors and professional institutions towards the Company's management quality and high degree of transparency. In future, management of the Group will endeavor to maintain and achieve beyond this outstanding performance and reputation that have been gained by the Company through challenging course.

Customer service

It is always the Group's believe that 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. Succeeding from the recognition and credit obtained by 11 project companies of the Group from local customers as well as government authorities in the cities they operate last year, 12 project companies have obtained awards like "Units with High Consumer Satisfaction" and "Units Trusted by Consumers", etc, from the local consumer councils during the year.

During the year, the Group has introduced services qualification framework (Level 2 and 3) with Utilise Training & Development Solutions Limited. During the year, 58 sessions of training courses have been conducted and 600 participants joining the assessment have gained the qualification. Under the services qualification recognition framework, the customer services technique of employees has been improved, which in turn enhanced the quality of the Group's services.

At the same time, with a view to assessing the services quality objectively, strengthening control of services quality, and identifying the key factors of customers' satisfaction, the Group has collaborated with TNS China to develop a Xinao Gas customer services satisfaction research. The third-party inspection under this project can provide scientific evidence on eliminating customers dissatisfaction.

In 2006, seven more project companies of the Group also have launched the 95158 national customer service hotline, raising the number of project companies with 95158 services to 25. Our customers can simply dial 95158 to access their local 24-hour customer service centers, enabling hassle-free communication for customers with us.

In addition, the project companies of the Group follow the Group's unified requirements to visit customers for safety checks on customers' gas appliances twice a year. These measures, drawing on the concept of "prevention is better than cure", help to eliminate customers' worry on potential safety problems, and thus increase the trust of our customers.

Human resources

We always uphold the principles of "based on people" and believe that the creation of customers' satisfaction is rooted at healthy personal growth of employees. Therefore, we put great emphasis on recruitment and internal training. In 2006, subsidiaries of the Group have implemented competitional promotion system, where outstanding young employees were screened through internal selection and open competition and to be promoted as management. Through the series of measures, the mechanism of executive selection, training and promotion has been polished well for enhancing vitality of executive team.

Moreover, the Group has provided planned learning channels for employees as usual, and encourages staff to have lifelong learning. The Group offers learning and studying opportunities to employees as a form of benefits and rewards. We have invited reputational expertise and professors from universities around the world to provide two days of training every month to employees. In addition, we have sponsored some employees with development potential and enthusiasm in work to further study in renowned local and overseas universities, so as to enhance their competence, professional skills and quality. At the same time, new employees were provided with specialised practice and care of living to facilitate qualification acquisition of new employees within short period of time, and to foster new employees' ability to provide quality services by the time they participate in the work, so as to ensure smooth operation.

As at 31 December 2006, the Group had 13,355 employees, of which eight 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 2006, the Group's cash on hand was equivalent to RMB1,567,552,000 (2005: RMB1,784,055,000), and its total debts was equivalent to RMB4,022,936,000 (2005: RMB3,654,669,000). Its net gearing ratio, i.e. the ratio of net debt to equity (excluding minority interests), was 80.3% (2005: 83.8%).

Under the US$25,000,000 Loan Agreements with IFC, 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, according to the Loan Agreement and the subsequent amendment thereto, 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 in the capital of Xinao Group International Investment Limited (formerly known as Easywin Enterprises Limited) ("XGII"), indirectly through XGII, at least 27% 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 2006, XGII and Mr. Wang together held 35.13% 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 2006, HK$458,700,000 (equivalent to RMB460,856,000) of CBs was converted into 84,358,594 ordinary shares of the Company. There were HK$91,300,000 (equivalent to RMB91,729,000) of CBs outstanding. If all the outstanding CBs are converted into shares, around 16,790,804 ordinary shares of the Company will be issued, equivalent to 1.72% of the total issued share capital of the Company as at 31 December 2006.

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.

As all the operations of the Group are in the PRC, if the appreciation of RMB would continue in the future, the Group will benefit from earning RMB and repaying foreign currency debts, the finance charges for foreign currency debt will be lowered indirectly.

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.

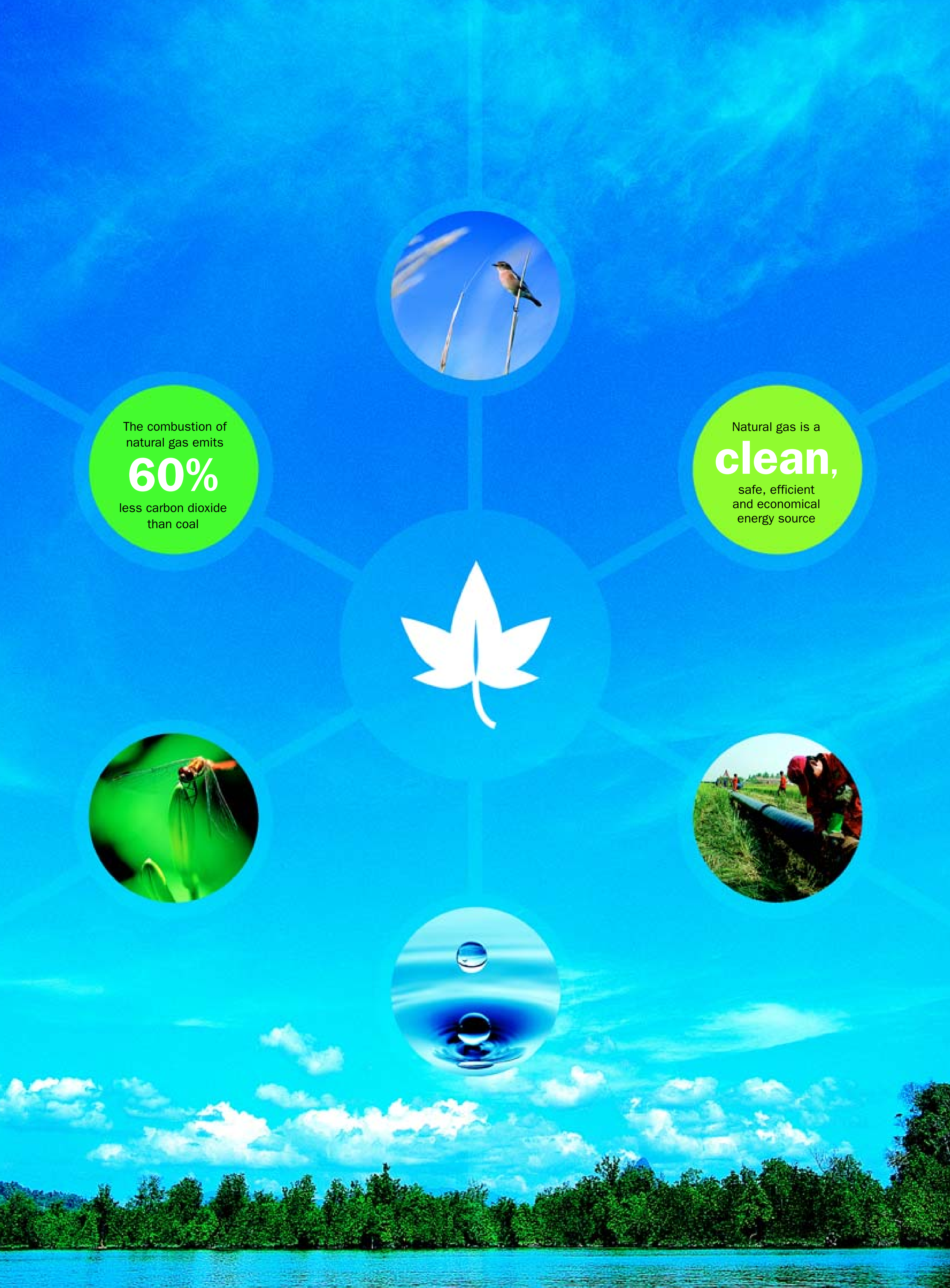
Borrowings structure

As at 31 December 2006, the Group's total bank and other borrowings amounted to RMB4,022,936,000 (2005: RMB3,654,669,000), including zero coupon CBs at fair value of HK$127,000,000 (equivalent to RMB127,597,000), loans and bonds of US$222,500,000 (equivalent to RMB1,737,436,000) and mortgage loans of HK$8,974,000 (equivalent to RMB9,016,000). Apart from the zero coupon CBs and the fixed rate US$200,000,000 bonds, other US dollar loans and HK dollar mortgage loans bear interest at floating rates, and the remaining bank and other borrowings are denominated in Renminbi at fixed interest rates or the interest rates released by the People's Bank of China. The project companies used the Renminbi loans as their working capital and operational expenditure. Except for the loan amount of RMB1,504,258,000 equivalent that has to be secured by assets with the net asset value of approximately RMB119,613,000 equivalent, all of the other loans are unsecured. Short-term loans amounted to RMB619,140,000 while the remaining were long-term loans falling due after more than a year. Details of capital commitments are set out in Note 43 to the Financial Statements.

As all the operations of the Group are in the PRC, revenues and expenses were mainly denominated in Renminbi. Hence, there were no 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.

Connecting...

'Nature'


The combustion of natural gas emits
60%
less carbon dioxide than coal
Natural gas is a
clean,
safe, efficient and economical energy source

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. WANG Yusuo, aged 43, is a co-founder, the 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, the China Charity Award and Outstanding Entrepreneurs in China. Mr. Wang is a director and a 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 49, 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 21 years of experience in the PRC gas industry. Mr. Yang is a director of XGII, which is a controlling shareholder of the Company.

Mr. CHEN Jiacheng, aged 44, 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 16 years of experience in business administration and management.

Mr. ZHAO Jinfeng, aged 39, is an Executive Director and a 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 14 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 48, is an Executive Director of the Company responsible for coordination 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 14 years of experience in managing gas projects and supervising gas supply operations and safety.

Mr. YU Jianchao, aged 38, 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 18 years of experience in accounting and finance. Mr. Yu is a director of XGII, which is a controlling shareholder of the Company.

Mr. CHEUNG Yip Sang, aged 40, is an Executive Director and a 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 36, is an Executive Director, the Financial Controller and the 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 over 14 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 Directors

Ms. ZHAO Baoju, aged 41, is a co-founder and a Non-Executive Director of the Company. She has over 14 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 a 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.

Mr. JIN Yongsheng, aged 43, is a Non-Executive Director of the Company. He graduated from the Tianjin University of Finance and Economics in 1986, specializing in finance, obtained an executive master's degree in business administration from the Peking University in 2005. 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 17 years of experience in legal practice. Mr. Jin is a director of XGII, which is a controlling shareholder of the Company.

Independent Non-Executive Directors

Mr. WANG Guangtian, aged 43, 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 24 years of experience in financial and administrative management. He is currently a vice president of Guofu Group and a director and the general manager of Guofu (Hong Kong) Holdings Limited.

Ms. YIEN Yu Yu, Catherine, aged 36, is an Independent Non-Executive Director appointed by the Company in 2004. She is currently a 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 37, 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 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 49, is a Deputy General Manager of the Company and the 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 24 years of experience in operational management.

Mr. HAN Jishen, aged 42, is a Deputy General Manager of the Company and the General Manager of Hunan, Zhejiang 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 14 years of experience in the gas fuel industry in the PRC.

Mr. ZHENG Haiyan, aged 40, is a Deputy General Manager of the Company responsible for the management of corporate engineering 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 and a deputy head of its Natural Gas Professional Committee. Mr. Zheng has over 14 years of experience in gas industry in the PRC.

Mr. LIANG Zhiwei, aged 43, is the Chief Performance Officer of the Company responsible for management and operation of the Company's strategies and performance. 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 38, 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 36, 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.

The Directors have pleasure in submitting to shareholders their annual report and the audited financial statements for the year ended 31 December 2006.

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 2006 are set out in the Consolidated Income Statement on page 70.

The Directors recommend the payment of a final dividend of HK$7.75 cents (equivalent to approximately RMB7.79 cents) per share to the shareholders on the register of members on 29 May 2007. The total dividend amount is approximately RMB75,923,000, and the retention of the remaining profit for the year is approximately RMB303,694,000.

Financial Summary

Details of the summary of the published financial information of the Group for the past eight years are set out on pages 18–19.

Property, Plant and Equipment

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB1,859,561,000 has been incurred in acquiring property, plant and equipment.

During the year, the Group revaluated its properties, resulting in a revaluation surplus amounting to RMB4,023,000. This has been credited directly to the revaluation reserve.

Details of the movements during the year in property, plant and equipment of the Group are set out in Note 15 to the Financial Statements.

Share Capital and Bonds

Details of movements during the year in the share capital and bonds of the Company are set out in Notes 34 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 73–74.

Bank and Other Loans

Details of bank and other loans of the Group are set out in Note 33 to the Financial Statements.

Charitable Donations

Charitable donations by the Group for 2006 amounted to RMB5,084,000 (2005: RMB698,000).

Directors' Emoluments

Details of Directors' emoluments are set out in Note 11 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	
Yu Jianchao	
Cheung Yip Sang	
Cheng Chak Ngok	

Non-executive Directors:

Zhao Baoju	
Jin Yongsheng	(re-designated as Non-executive Director on 5 June 2006)

Independent non-executive Directors:

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

In accordance with Articles 116 of the Company's Articles of Association, Mr. Wang Yusuo, Mr. Qiao Limin, Mr. Cheng Chak Ngok, Ms. Zhao Baoju and Mr. Wang Guangtian retire by rotation and, being eligible, offer themselves for re-election.

As of 31 December 2006, 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).

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

Disclosure of Interests

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

As at 31 December 2006, 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	Interests in underlying shares pursuant to share options	Total 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)	339,275,000 (Note 1)	–	341,869,000	700,000 (Note 3)	342,569,000	35.17%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	–	339,275,000 (Note 1)	2,594,000 (Note 2)	341,869,000	700,000 (Note 3)	342,569,000	35.17%
Mr. Yang Yu	Beneficial owner	–	–	–	–	8,000,000	8,000,000	0.82%
Mr. Chen Jiacheng	Beneficial owner	–	–	–	–	6,500,000	6,500,000	0.67%
Mr. Zhao Jinfeng	Beneficial owner	–	–	–	–	6,500,000	6,500,000	0.67%
Mr. Qiao Limin	Beneficial owner	–	–	–	–	6,500,000	6,500,000	0.67%
Mr. Yu Jianchao	Beneficial owner	–	–	–	–	6,500,000	6,500,000	0.67%
Mr. Cheung Yip Sang	Beneficial owner	–	–	–	–	5,700,000	5,700,000	0.59%
Mr. Cheng Chak Ngok	Beneficial owner	–	–	–	–	800,000	800,000	0.08%

Notes:

1. The two references to 339,275,000 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.
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.

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 2006, 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 (Note 1)	Exercise price (HK$) (Note 2)	Number of shares subject to outstanding options as at 1 January 2006	Number of options granted during the year	Number of shares subject to outstanding options as at 31 December 2006	Approximate percentage of the Company's total issued share capital
Mr. Wang	14.02.2003	15.02.2005 – 14.02.2013	2.265	700,000 (Note 3)	–	700,000	0.07%
Ms. Zhao	14.02.2003	15.02.2005 – 14.02.2013	2.265	700,000 (Note 3)	–	700,000	0.07%
Mr. Yang Yu	14.02.2003	15.02.2005 – 14.02.2013	2.265	1,000,000		8,000,000	0.82%
	15.03.2006	16.09.2006 – 15.03.2016	6.650		3,500,000		
	15.03.2006	16.03.2008 – 15.03.2016	6.650		3,500,000		
Mr. Chen Jiacheng	15.03.2006	16.09.2006 – 15.03.2016	6.650	–	3,250,000	6,500,000	0.67%
	15.03.2006	16.03.2008 – 15.03.2016	6.650		3,250,000		
Mr. Zhao Jinfeng	15.03.2006	16.09.2006 – 15.03.2016	6.650	–	3,250,000	6,500,000	0.67%
	15.03.2006	16.03.2008 – 15.03.2016	6.650		3,250,000		
Mr. Qiao Limin	15.03.2006	16.09.2006 – 15.03.2016	6.650	–	3,250,000	6,500,000	0.67%
	15.03.2006	16.03.2008 – 15.03.2016	6.650		3,250,000		
Mr. Yu Jianchao	15.03.2006	16.09.2006 – 15.03.2016	6.650	–	3,250,000	6,500,000	0.67%
	15.03.2006	16.03.2008 – 15.03.2016	6.650		3,250,000		
Mr. Cheung Yip Sang	15.03.2006	16.09.2006 – 15.03.2016	6.650	–	2,850,000	5,700,000	0.59%
	15.03.2006	16.03.2008 – 15.03.2016	6.650		2,850,000		
Mr. Cheng Chak Ngok	15.03.2006	16.09.2006 – 15.03.2016	6.650	–	400,000	800,000	0.08%
	15.03.2006	16.03.2008 – 15.03.2016	6.650		400,000		
Total				1,700,000	39,500,000	41,200,000	

Disclosure of Interests *(continued)*

Directors' rights to acquire shares *(continued)*

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 closing price of the shares immediately before the date on which the options were granted during the year was HK$6.200.
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.

The fair value per share option is provided in Note 39 to the Financial Statements.

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 2006, 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			Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests	Family interests				
Mr. Wang	Beneficial owner and interest of controlled corporation	2,594,000 (Note 2)	339,275,000 (Note 1)	–	341,869,000	700,000 (Note 3)	342,569,000(L)	35.17%
Ms. Zhao	Interest of spouse and interest of controlled corporation	–	339,275,000 (Note 1)	2,594,000 (Note 2)	341,869,000	700,000 (Note 3)	342,569,000(L)	35.17%
Xinao Group International Investment Limited ("XGII")	Beneficial owner	–	339,275,000 (Note 1)	–	339,275,000	–	339,275,000(L)	34.83%
Capital Research and Management Company	Investment manager	–	91,587,000	–	91,587,000	–	91,587,000(L)	9.40%
Penta Investment Advisers Ltd.	Investment manager	–	56,451,768 (Note 4)	–	56,451,768	–	56,451,768(L)	5.80%
Mr. John Zwaanstra	Interest of controlled corporation	–	56,451,768 (Note 4)	–	56,451,768	–	56,451,768(L)	5.80%

Notes:

1. The three references to 339,275,000 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.
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.
4. The two references to 56,451,768 shares relate to the same block of shares. Such shares are held by Penta Investment Advisers Ltd., which is 100% owned by Mr. John Zwaanstra, in the capacity of an investment manager.
5. (L) represents Long Position.

Substantial Shareholders *(continued)*

Save as disclosed above, as at 31 December 2006, 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 2006, 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

The Company has adopted a share option scheme (the "2002 Scheme") pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002.

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.

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:

Grantee	Date of grant	Exercise period (Note 1)	Exercise price (HK$) (Note 2)	Number of shares subject to outstanding options as at 1 January 2006	Number of options granted during the year	Number of shares subject to outstanding options as at 31 December 2006	Approximate percentage of the Company's total issued share capital
Directors	14.02.2003	15.02.2005 – 14.02.2013	2.265	1,700,000		41,200,000	4.23%
	15.03.2006	16.09.2006 – 15.03.2016	6.650		19,750,000		
	15.03.2006	16.03.2008 – 15.03.2016	6.650		19,750,000		
Employees	15.03.2006	16.09.2006 – 15.03.2016	6.650		9,100,000	18,200,000	1.87%
	15.03.2006	16.03.2008 – 15.03.2016	6.650		9,100,000		
Total				1,700,000	57,700,000	59,400,000	6.10%

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 closing price of the shares immediately before the date on which the options were granted during the year was HK$6.200.

No share option was lapsed or cancelled during the year.

The fair value per share option is provided in Note 39 to the Financial Statements.

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

During the year, the Group has entered into the 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 a contract for a term of one year commencing from 1 January 2005 with Langfang Xinao Property Management Company Limited ("Langfang Property Management") (note 1), and two other contracts for a term of 2.75 years and 3 years, both commencing from 1 April 2005 with Xinao Group Elephant Club Hotel Company Limited ("Elephant Club") (note 1) respectively, which provide property management services to Langfang Xinao for three office buildings situated in Langfang City with service fees of RMB208,000, RMB1,167,000 and RMB300,000 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, and a contract for a term of six months commencing from 1 October 2006 with Xinao Gaoke Services Management Company Limited ("Gaoke Services") (note 1). The annual service fee for each contract was RMB120,000, where property management service would be provided by Elephant Club and Gaoke Services respectively for Langfang Equipment's factory and office building situated in Langfang City.

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 Xinao Group Company Limited ("XGCL") (note 1) and entered into a contract commencing from 1 January 2005 with an annual rental of RMB436,000.

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 RMB363,000 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 building situated in Hong Kong to Enric Investment. The annual rental is HK$456,000 (RMB471,000) plus a reimbursement of management fee and other expenses of RMB98,000 in 2006. 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 refuelling stations, gas refuelling daughter station trailers, storage tanks, compressed natural gas ("CNG") and liquefied natural gas ("LNG") trucks and compressors).

During the year, the subsidiaries of the Company, including Bengbu Xinao Gas Company Limited, Yantai Xinao Industry Company Limited, Zhuzhou Xinao Gas Company Limited ("Zhuzhou Xinao"), Lianyungang Xinao Gas Company Limited, Yantai Xinao Gas Company Limited, Yongkang Xinao Gas Company Limited, Haining Xinao Gas Development Company Limited ("Haining Gas Development"), Xiangtan Xinao Gas Company Limited, Xinao Gas Development Company Limited ("Xinao Gas Development"), Xinao Energy Logistics Company Limited, Kaifeng Xinao Gas Company Limited, Guigang Xinao Gas Company Limited, Rizhao Xinao Gas Company Limited ("Rizhao Xinao"), Chaohu Xinao Gas Development Company Limited, Yancheng Xinao Gas Company Limited, Shangqiu Xinao Gas Company Limited, Chuzhou Xinao Gas Company Limited, Changzhou Xinao Gas Engineering Company Limited, Hangzhou Xiaoshan Piped Gas Development Company Limited, Shijiazhuang Xinao Vehicle Gas Company Limited, Huaian Xinao Gas Company Limited ("Huaian Xinao"), Bengbu Xinao Gas Development Company Limited ("Benghu Gas Development"), Langfang Xinao, Xinxiang Xinao Gas Company Limited and Tongliao Xinao Gas Company Limited, purchased natural gas track trucks, 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 and CNG vehicle refuelling station business. The total considerations of the contracts are RMB129,948,000.

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

Non-Exempt Continuing Connected Transactions *(continued)*

Pursuant to Rule 14A.38 of the Listing Rules, the board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of Directors. The independent non-executive Directors have reviewed the continuing connected transactions and the report of the auditors 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.

Non-Exempt Connected Transactions

On 15 February 2006, Xinao (China) Gas Investment Company Limited ("Xinao China") (a wholly-owned subsidiary of the Company) entered into a joint venture contract with XGCL and XGII (note 1) for the establishment of Xinneng Chemical Company Limited ("Xinneng Chemical"), a Sino-foreign equity joint venture company, in Erdos, Inner Mongolia, the PRC. Upon establishment, Xinneng Chemical would be owned by XGCL, XGII and Xinao China as to 45%, 40% and 15%, respectively. Both of the total investment and the registered capital of Xinneng Chemical would amount to US$99,000,000 (equivalent to approximately HK$772,200,000). The total commitment of the Group in Xinneng Chemical would amount to US$14,850,000 (equivalent to approximately HK$115,830,000), representing Xinao China's proportionate interest in the registered capital of Xinneng Chemical. The investment in Xinneng Chemical provides an opportunity for the Group to invest in the energy chemical industry, which is closely related to the existing business of the Group, and, more importantly, such investment enables the Group to secure a stable supply of an alternative and backup energy source which can substitute natural gas as an alternative supply to its customers without any impact on the Group's existing customers. Details of the transaction were disclosed in the Company's announcement dated 15 February 2006.

On 6 November 2006, Bengbu Gas Development, a 70%-owned subsidiary of the Company, as vendor entered into a disposal agreement with Xinneng Energy Limited ("Xinneng Energy") (note 1) as purchaser pursuant to which Bengbu Gas Development agreed to sell and Xinneng Energy agreed to purchase the dimethyl ether ("DME") business for consideration of RMB14,864,864 (equivalent to approximately HK$14,293,000). After disposal, more capital and expertise would be injected for the expansions and developments of the DME business in order to render it more competitive. Considering that the principal businesses of Bengbu Gas Development are the sales of piped gas and bottled liquefied petroleum gas but not in DME-related business, and that Xinneng Energy has rich raw materials and technological expertise on DME production and already possesses a license to establish an annual 300,000-ton DME production project in Bengbu City, the management of the Group decided that in order to utilise its assets more efficiently, the DME Business should be transferred to Xinneng Energy, which is currently 15% indirectly owned by the Company, thereby still enabling the Group to retain part of the future earnings generated by the DME business, if any. Details of the transaction were disclosed in the Company's announcement dated 6 November 2006.

On 6 November 2006, Xinao China, a wholly-owned subsidiary of the Company, as purchaser entered into an acquisition agreement with Huaian City Urban Asset Operation Company Limited ("Huaian Asset") (note 2) as vendor pursuant to which Xinao China conditionally agreed to purchase and Huaian Asset conditionally agreed to sell the 20% equity interest in Huaian Xinao beneficially owned by Huaian Asset, being the entire equity interest held by Huaian Asset in Huaian Xinao for consideration of RMB27,800,600 (equivalent to approximately HK$26,731,000). As at 6 November 2006, Huaian Xinao was an 80%-owned subsidiary of the Company. Upon the completion of the acquisition, the Group would consolidate and gain full control on Huaian Xinao and the Group's equity interests in Huaian Xinao would be increased from 80% to 100%, thereby increasing the Group's share of profit (if any) in Huaian Xinao by 20%. Huaian Xinao is now undergoing steady growth. Its piped natural gas source has commenced supply, which should bring in long term returns to Huaian Xinao. Details of the transactions were disclosed in the Company's announcement dated 6 November 2006.

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

Exempted Connected Transactions

During the year, Xinao Gas Development provided gas connection services to XGCL, Bengbu Xinao Property Company Limited ("Bengbu Property") (note 1), Langfang Xinao Property Development Company Limited ("Langfang Property") (note 1) and Langfang Xincheng Property Development Company Limited ("Langfang Xincheng Property") (note 1), with the contract sum of RMB413,000, RMB1,351,000, RMB711,000 and RMB7,000 respectively.

During the year, Zhuzhou Xinao paid rentals of properties to Zhuzhou City Urban Construction Investment and Operation Company Limited ("Zhuzhou Construction") (note 2) with the amount of RMB12,000, whilst Haining Xinao paid rentals of properties to Haining City Wantong Gas Company Limited ("Haining Wantong") (note 2) and Haining City Mintai Coal Gas Company Limited ("Haining Mintai") (note 2), with the amount of RMB50,000 and RMB120,000 respectively.

During the year, Xinao Gas Development purchased decoration service for a training centre from Langfang Xinao Construction and Installation Engineering Company Limited ("Langfang Construction") (note 1) for a consideration of RMB3,240,000.

During the year, the Group made a donation of RMB4,200,000 to Xinao Charity Fund (note 3).

During the year, Shantou Xinao Gas Company Limited and Zhanjiang Xinao paid pipeline construction fee to Shantou City Chenghai Gas Construction Company Limited ("Shantou Chenghai") (note 2) with amount of RMB329,000 and RMB649,000 respectively.

During the year, Xinao China, a wholly-owned subsidiary of the Company, as purchaser entered into an acquisition agreement with Rizhao Finance Bureau as vendor pursuant to which Xinao China conditionally agreed to purchase and Rizhao Finance Bureau conditionally agreed to sell the 100% equity interest in Rizhao Coal Gas Company ("Rizhao Coal Gas") (note 2) (which held 20% of Rizhao Xinao) beneficially owned by Rizhao Finance Bureau for consideration of RMB7,483,000 (equivalent to approximately HK$7,518,000). Before the acquisition, Rizhao Xinao was an 80%-owned subsidiary of the Company. Upon the completion of the acquisition, the Group would consolidate and gain full control on Rizhao Xinao and the Group's equity interests in Rizhao Xinao would be increased from 80% to 100%, thereby increasing the Group's share of profit (if any) in Rizhao Xinao by 20%. Rizhao Xinao is now undergoing steady growth which should bring in long term returns to the Group.

Notes:

1. Wang Family Companies, including, among others, Langfang Property Management, Elephant Club, Gaoke Services, XGCL, Enric Investment, Shijiazhuang Enric, Enric Bengbu, Enric Langfang, XGII, Xinneng Energy, Bengbu Property, Langfang Property, Langfang Xincheng Property 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 a controlling shareholder of the Company, and/or his associates (including Ms. Zhao, a non-executive Director and a controlling shareholder of the Company and the spouse of Mr. Wang), thereby being connected persons of the Company.
2. Huaian Asset, Zhuzhou Construction, Haining Wantong, Haining Mintai, Shantou Chenghai and Rizhao Coal 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 organization, of which Mr. Wang is the legal representative and he has no beneficial interests on the donation.
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, 101,145,000 ordinary shares of the Company will be issued. During the year, HK$379,130,000 of CBs, representing 68.93% of the CBs issued, was converted into 69,725,039 ordinary shares of the Company. As of 31 December 2006, the accumulated CBs being converted were HK$458,700,000, representing 83.40% of the CBs. If all the outstanding CBs are converted into shares, 16,790,804 ordinary shares of the Company will be issued, equivalent to 1.72% of the total issued share capital of the Company as at 31 December 2006.

Other than disclosed above, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2006.

Major Customers and Suppliers

For the year ended 31 December 2006, 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. The Audit Committee has reviewed the unaudited interim accounts and the audited annual accounts for 2006. Three 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 one executive Director, namely, Mr. Yang Yu, 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 include the review of the Company's policy for remuneration of Directors and senior management and determination of 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 47 to 68 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. Specific enquiries have been made with all Directors who have confirmed that they 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

According to the US$25,000,000 Loan Agreement entered into by the Company and the subsequent amendment thereto, Mr. Wang Yusuo, the controlling shareholder of the Company, is required to retain at least 27% 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 Company issued 7 year bonds on 5 August 2005 and the terms and conditions of the bonds require Mr. Wang Yusuo, the controlling shareholder of the Company, to retain control over the Company throughout the term of the bonds. The total amount of the loan involved is US$200,000,000 (equivalent to RMB1,614,040,000).

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, 19 April 2007

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.

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 numerous awards from independent bodies recognising the Group's achievements in business and management which include the following:

AsiaMoney

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

Yazhou Zhoukan

- Year 2001, 2002, 2003, 2004, 2005, 2006 "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"

EuroWeek

- Year 2005 "Best Asian High Yield Bond Issue"

The Hong Kong Management Association

- Year 2006 "Honourable Mention, The Best Annual Reports Awards"

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.

The Group, having engaged a business consultancy firm to review the system of internal control and risk management, has implemented its recommendations and aimed to establish 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.

Code on Corporate Governance Practices *(continued)*

Starting from 2006, the Group has engaged IBM Global Services (China) Company Limited ("IBM") to implement Enterprise Resource Planning ("ERP") and install SAP business software solutions. During the course of SAP development, all control points in our current operational and financial systems have been recognised, improved and implemented into SAP to ensure effective internal control. SAP also enhances the financial reporting system by providing more accurate and timely information.

In 2007, the Group will continue its effort in fortifying the effectiveness of SAP, with a view to raising the transparency of business operation and accessibility of management information within the Group. The internal control framework of the Group will be further strengthened under the implementation of SAP.

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 2006, a total of 12 Board meetings (including four regular Board meetings) were held. Details of Directors' attendance record of Board meetings and Board committees meetings in 2006 are as follows:

Board meeting

Director	*Attendance*	
Mr. Wang Yusuo	5/12	(4/4)*
Mr. Yang Yu	11/12	(4/4)*
Mr. Chen Jiacheng	5/12	(4/4)*
Mr. Zhao Jinfeng	6/12	(4/4)*
Mr. Qiao Limin	7/12	(4/4)*
Mr. Yu Jianchao	10/12	(4/4)*
Mr. Cheung Yip Sang	6/12	(4/4)*
Mr. Cheng Chak Ngok	12/12	(4/4)*
Ms. Zhao Baoju	6/12	(4/4)*
Mr. Jin Yongsheng	9/12	(4/4)*
Mr. Wang Guangtian	10/12	(4/4)*
Ms. Yien Yu Yu, Catherine	11/12	(4/4)*
Mr. Kong Chung Kau	12/12	(4/4)*

* regular Board meeting

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

A.1 The Board (continued)

Code Provisions	Compliance	Details of Compliance
		Audit Committee meeting *Committee member* — *Attendance* Mr. Wang Guangtian — 2/3 Ms. Yien Yu Yu, Catherine — 3/3 Mr. Kong Chung Kau — 3/3 **Remuneration Committee meeting** *Committee member* — *Attendance* Mr. Yang Yu — 2/2 Mr. Wang Guangtian — 2/2 Ms. Yien Yu Yu, Catherine — 2/2 Mr. Kong Chung Kau — 2/2 **Convertible Bond Committee meeting** *Committee member* — *Attendance* Mr. Yang Yu — 31/31 Mr. Yu Jianchao — 31/31 Mr. Cheng Chak Ngok — 31/31
• 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 finalised version of 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 is 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.

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

A.1 The Board (continued)

Code Provisions	Compliance	Details of Compliance
• 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 by any Directors.
• 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. • Apart from acting as a director or chief executive officer in a number of companies owned and controlled by Mr. Wang Yusuo and/or his family, Mr. Yang Yu has no other relationship with Mr. Wang Yusuo.
• 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. • Encourage directors to make a full and active contribution to board affairs. • Facilitate the effective contribution of non-executive directors and ensure constructive relations between executive and non-executive directors. • Ensure effective communication with shareholders and views of shareholders are communicated to the board as a whole.	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. • The Board has taken the following measures in relation to corporate governance practices: 1. the Board has 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 strategy and management of companies, corporate governance and leadership for the Directors and the management members.

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 eight executive Directors, two non-executive Directors and three independent non-executive Directors. As at 31 December 2006, 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. Yu Jianchao	(Executive Director)
Mr. Cheung Yip Sang	(Executive Director)
Mr. Cheng Chak Ngok	(Executive Director)
Ms. Zhao Baoju	(Non-executive Director)
Mr. Jin Yongsheng	(Non-executive Director, re-designated on 5 June 2006)
Mr. Wang Guangtian	(independent non-executive Director)
Ms. Yien Yu Yu, Catherine	(independent non-executive Director)
Mr. Kong Chung Kau	(independent non-executive Director)

During the year under review, Mr. Jin Yongsheng was re-designated from an Executive Director to a Non-executive Director with effect from 5 June 2006.

For qualifications, experience, expertise and relationships (if any) of the Board members, please refer to the biographies of the Directors on pages 32 to 35 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 2006, 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 2005 and the interim results of the Group for the 6 months period ended 30 June 2006;

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; and

5. reviewed connected transactions of the Group.

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 2006, the Convertible Bond Committee met 31 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 Directors 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.

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 Company's Articles of Association stipulate that a Director appointed to fill a casual vacancy will be subject to election at the next general meeting after appointment.

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. – scrutinising 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. • The board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealing in securities of the issuer.	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. • The Company has adopted written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealing in securities of the Company.

Recommended Best Practice	Compliance	Details of compliance
• Directors should participate in a programme of continuous professional development.	Yes	• In 2006, the Company organized 16 internal training programmes and seminars for the Directors and the senior management on various matters relating to corporate governance, leadership, strategy, management, corporate culture and SAP implementation. 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 (if invited) (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, 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 twice during the year under review considering the remuneration of and share options granted to 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 posted on the Company's website and will be 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.

Recommended Best Practice	Compliance	Details of compliance
• Where the board resolves to approve any remuneration which the remuneration committee has previously resolved not to approve, the board must disclose the reasons for its resolution in its next annual report.	Yes	• The Board has not resolved to approve any remuneration which the Remuneration Committee has previously resolved not to approve. The Board will disclose the reasons in the next annual report if such circumstances occur in the future.

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 for the year 2006.

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. • Starting from 2006, the Group has engaged IBM to implement ERP and install SAP. During the course of SAP development, all control points in our current operational and financial system have been recognized, reviewed and improved. SAP also enhances the financial reporting system by providing more accurate and timely information. • The Group has 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, some internal control weaknesses have been found and corrected. 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 should be 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, CFA	(Independent non-executive Director)
Mr. Kong Chung Kau, CPA	(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, interim report and to review significant financial reporting judgments contained in them.

The Audit Committee met 3 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 2006, 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 2006	
• Audit fee paid – Interim review	HK$700,000
• Audit fee payable – Final results (subject to final agreement with the auditors)	HK$3,900,000
Non-audit services for the year 2006	
• Fee paid for agree-upon procedures in respect of connected transactions of the Group and other miscellaneous services	HK$60,300

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 are posted on the Company's website and will be available on request. The primary responsibilities of the Audit Committee are set out therein.
• 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 provide 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 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. • The Chairman and two members of the Audit Committee and the Remuneration Committee attended the said annual general meeting in 2006.
• 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	• During 2006, there was no general meeting for approving a connected transaction or any other transaction that is subject to independent shareholders' approval.

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

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 stipulated in the Articles of Association of the Company are in compliance with the requirements of the Listing Rules. Such rights and procedures are 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 procedures for demanding a poll by shareholders and the poll procedures at the commencement of meeting.	Yes	• At the annual general meeting held in the year under review, the chairman explained the procedures 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 (if any), 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 31 December 2006, an annual general meeting of the Company will be held on 29 May 2007 and it is currently expected that interim results for the six months ended 30 June 2007 will be announced in September 2007.

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 6 international investors' conferences, as well as 2 international road shows covering Germany, Holland, Hong Kong, Italy, Japan, China, Singapore, the UK, the US and Switzerland, 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 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

Deloitte.
德勤

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

We have audited the consolidated financial statements of Xinao Gas Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 70 to 144, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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
19 April 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000 (Restated)
Revenue	7	**3,396,536**	2,056,826
Cost of sales		**(2,203,313)**	(1,285,172)
Gross profit		**1,193,223**	771,654
Other income	8	**201,358**	132,249
Selling expenses		**(59,154)**	(37,392)
Administrative expenses		**(545,585)**	(294,737)
Fair value changes on derivative financial instruments		**(1,854)**	(37,039)
Fair value changes on convertible bonds		**(4,392)**	(56,153)
Share-based payment expenses		**(57,370)**	–
Other expenses		**(59,981)**	(26,731)
Share of results of associates		**4,685**	1,136
Share of results of jointly controlled entities		**66,126**	20,936
Finance costs	9	**(203,424)**	(73,383)
Profit before taxation	10	**533,632**	400,540
Taxation	12	**(49,772)**	(38,343)
Profit for the year		**483,860**	362,197
Attributable to:			
Equity holders of the Company		**379,617**	270,549
Minority interests		**104,243**	91,648
		483,860	362,197
Dividends	13		
– Paid		**46,333**	25,254
– Proposed		**75,923**	45,440
Earnings per share	14		
– Basic		**40.5 cents**	30.5 cents
– Diluted		**38.7 cents**	30.3 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	15	**5,191,837**	3,534,973
Prepaid lease payments	16	**375,200**	269,882
Investment properties	17	**70,885**	71,602
Goodwill	18	**184,267**	133,046
Other intangible assets	19	**267,386**	57,271
Interests in associates	20	**340,173**	76,571
Interests in jointly controlled entities	21	**295,530**	235,432
Available-for-sale investments	22	**18,420**	2,600
Amount due from an associate	27	**83,000**	57,000
Amount due from a jointly controlled entity	28	**69,000**	–
Deposits paid for investments in joint ventures		**54,725**	264,602
Deposits paid for acquisition of property, plant and equipment		**14,491**	–
		6,964,914	4,702,979
Current assets			
Inventories	23	**171,218**	115,713
Trade and other receivables	24	**797,895**	579,423
Prepaid lease payments	16	**6,587**	5,776
Derivative financial instruments	25	**–**	5,504
Amounts due from customers for contract work	26	**311,243**	216,286
Amounts due from associates	27	**67,558**	52,731
Amounts due from jointly controlled entities	28	**46,255**	40,119
Amounts due from related companies	29	**101,784**	52,118
Pledged bank deposits	30	**–**	162,963
Bank balances and cash	30	**1,567,552**	1,621,092
		3,070,092	2,851,725
Current liabilities			
Trade and other payables	31	**1,625,959**	729,904
Derivative financial instruments	25	**46,012**	49,662
Amounts due to customers for contract work	26	**279,902**	183,078
Amounts due to associates	27	**56,320**	90,826
Amounts due to jointly controlled entities	28	**16,484**	4,920
Amounts due to related companies	32	**18,032**	19,796
Taxation payable		**36,088**	37,439
Bank and other loans - due within one year	33	**619,140**	566,457
Financial guarantee liability	35	**1,502**	1,228
		2,699,439	1,683,310
Net current assets		**370,653**	1,168,415
Total assets less current liabilities		**7,335,567**	5,871,394

At 31 December 2006

	NOTES	2006 RMB'000	2005 RMB'000 (Restated)
Capital and reserves			
Share capital	34	**102,825**	95,819
Reserves		**2,953,835**	2,135,667
Equity attributable to equity holders of the Company		**3,056,660**	2,231,486
Minority interests		**811,768**	527,663
		3,868,428	2,759,149
Non-current liabilities			
Bank and other loans – due after one year	33	**1,750,738**	961,083
Financial guarantee liability	35	**1,228**	2,455
Convertible bonds	36	**127,597**	556,400
Guaranteed notes	37	**1,525,461**	1,570,729
Deferred taxation	38	**62,115**	21,578
		3,467,139	3,112,245
		7,335,567	5,871,394

The consolidated financial statements on pages 70 to 144 were approved and authorised for issue by the Board of Directors on 19 April 2007 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 2006

	Attributable to equity holders of the Company											
	Share capital RMB'000	Share premium RMB'000	Convertible bond-equity reserve RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Statutory reserves RMB'000	Property revaluation reserve RMB'000	Investment revaluation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2005 as originally stated	91,954	1,070,309	53,896	1,167	–	44,350	21,053	–	637,067	1,919,796	438,288	2,358,084
Restatements (note 4)	–	–	(53,896)	–	–	–	–	–	(14,244)	(68,140)	–	(68,140)
At 1 January 2005 (restated)	91,954	1,070,309	–	1,167	–	44,350	21,053	–	622,823	1,851,656	438,288	2,289,944
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)	–
Net expense recognised directly in equity	–	–	–	–	–	–	(1,308)	–	–	(1,308)	(787)	(2,095)
Profit for the year	–	–	–	–	–	–	–	–	270,549	270,549	91,648	362,197
Total recognised income and expenses for the year	–	–	–	–	–	–	(1,308)	–	270,549	269,241	90,861	360,102
Issue of shares on exercise of share options (note a)	2,343	50,746	–	–	–	–	–	–	–	53,089	–	53,089
Issue of shares on conversion of convertible bonds (note b)	1,522	81,232	–	–	–	–	–	–	–	82,754	–	82,754
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	20,814	20,814
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 (restated)	95,819	1,202,287	–	1,167	–	70,681	19,745	–	841,787	2,231,486	527,663	2,759,149
Surplus arising on revaluation of buildings	–	–	–	–	–	–	5,282	–	–	5,282	–	5,282
Deferred taxation liability on revaluation of buildings	–	–	–	–	–	–	(2,449)	–	–	(2,449)	–	(2,449)
Share of valuation surplus by minority shareholders	–	–	–	–	–	–	(1,064)	–	–	(1,064)	1,064	–
Loss on fair value change of available-for-sale investment	–	–	–	–	–	–	–	(444)	–	(444)	–	(444)
Net income recognised directly in equity	–	–	–	–	–	–	1,769	(444)	–	1,325	1,064	2,389
Profit for the year	–	–	–	–	–	–	–	–	379,617	379,617	104,243	483,860
Total recognised income and expenses for the year	–	–	–	–	–	–	1,769	(444)	379,617	380,942	105,307	486,249
Recognition of equity settled share based payment	–	–	–	–	57,370	–	–	–	–	57,370	–	57,370
Issue of shares on conversion of convertible bonds (note c)	7,006	426,189	–	–	–	–	–	–	–	433,195	–	433,195
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	–	255,461	255,461
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	(12,298)	(12,298)
Reduction in share of equity interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	(15,144)	(15,144)
Dividend appropriation	–	–	–	–	–	–	–	–	(46,333)	(46,333)	–	(46,333)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(49,221)	(49,221)
Transfer to statutory reserves (note d)	–	–	–	–	–	12,582	–	–	(12,582)	–	–	–
At 31 December 2006	102,825	1,628,476	–	1,167	57,370	83,263	21,514	(444)	1,162,489	3,056,660	811,768	3,868,428

Notes:

a. 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 ordinary 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.

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

c. During the year ended 31 December 2006, 69,725,039 ordinary shares were issued in relation to the conversion of CB to shares by various CB holders. The shares were issued at the conversion price of HK$5.4375 per ordinary 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 STATEMENT

For the year ended 31 December 2006

	2006 RMB'000	2005 RMB'000 (Restated)
Operating activities		
Profit before taxation	**533,632**	400,540
Adjustments for:		
Share of results of associates	**(4,685)**	(1,136)
Share of results of jointly controlled entities	**(66,126)**	(20,936)
Fair value changes on derivative financial instruments	**1,854**	37,039
Gain on dilution of interest in a subsidiary	**(15,144)**	–
Discount on acquisition of a subsidiary	**(5,007)**	(10,898)
Fair value change on convertible bonds	**4,392**	56,153
Exchange (gain) loss of guaranteed notes	**(45,207)**	147
Loss on disposal of property, plant and equipment	**7,273**	2,557
Gain on disposal of investment properties	**(784)**	–
Gain on disposal of interest in leasehold land	**(2,224)**	–
Increase in fair value of investment properties	**(508)**	(1,000)
Share-based payment expenses	**57,370**	–
Increase in fair value of interest in leasehold land upon transfer to investment properties	**–**	(5,801)
Research and development expenses	**458**	485
Revaluation deficit of property, plant and equipment	**1,259**	370
Depreciation of property, plant and equipment	**183,055**	110,032
Allowance for bad and doubtful debts	**39,720**	15,314
Amortisation of intangible assets	**10,765**	1,666
Amortisation of prepaid lease payments	**5,819**	4,967
Financial guarantee income	**(1,793)**	(1,227)
Interest income	**(82,563)**	(18,403)
Interest expenses	**203,424**	73,383
Operating cash flows before movements in working capital	**824,980**	643,252
Decrease (increase) in inventories	**1,009**	(5,095)
Increase in trade and other receivables	**(161,760)**	(252,636)
Increase in amounts due from customers for contract work	**(94,957)**	(49,910)
Increase in amounts due from associates	**(14,827)**	(33,370)
(Increase) decrease in amounts due from jointly controlled entities	**(6,136)**	6,763
Increase in amounts due from related companies	**(49,666)**	(894)
Increase in trade and other payables	**581,518**	169,615
Increase in amounts due to customers for contract work	**96,824**	82,308
Increase (decrease) in amounts due to jointly controlled entities	**11,564**	(18,407)
Decrease in amounts due to associates	**(34,506)**	(48)
(Decrease) increase in amounts due to related companies	**(1,764)**	11,051
Cash generated from operating activities	**1,152,279**	552,629
Interest received	**82,563**	18,403
Interest paid	**(119,714)**	(84,616)
PRC enterprise income tax paid	**(53,964)**	(21,783)
Net cash from operating activities	**1,061,164**	464,633

	NOTE	2006 RMB'000	2005 RMB'000 (Restated)
Investing activities			
Dividend received from a jointly controlled entity		**14,578**	–
Purchase of property, plant and equipment		**(1,397,996)**	(973,222)
Deposit paid for acquisition of property, plant and equipment		**(14,491)**	–
Increase in prepaid lease payments		**(121,750)**	(65,184)
Acquisition of subsidiaries	40	**(3,763)**	(31,044)
Acquisition of businesses	41	**(40,051)**	–
Net decrease (increase) in deposits paid for investments in joint ventures		**181,247**	(214,962)
Investments in jointly controlled entities		**(7,710)**	(43,997)
Acquisition of associates		**(245,287)**	(9,500)
Acquisition of intangible asset		**(69,990)**	–
Investment in available-for-sale investments		**(9,470)**	(2,600)
Proceeds from disposal of property, plant and equipment		**16,392**	–
Proceeds from disposal of investment properties		**2,009**	–
Proceeds from disposal of interest in leasehold land		**12,605**	–
Research and development expenses		**(458)**	(485)
Net cash used in investing activities		**(1,684,135)**	(1,340,994)
Financing activities			
Interest paid on guaranteed notes		**(117,695)**	–
Proceeds from guaranteed notes issued		**–**	1,614,040
Notes issue expenses		**–**	(46,050)
Proceeds from shares issued		**–**	53,089
Contribution from minority shareholders		**112,311**	5,843
Dividends paid to minority shareholders		**(49,221)**	(21,750)
Dividend paid to shareholders		**(46,333)**	(25,254)
New bank loans raised		**1,427,000**	1,440,300
Repayment of bank loans		**(824,594)**	(1,264,701)
Amounts advanced (to) from an associate		**(26,000)**	77,400
Amounts advanced (to) from a jointly controlled entity		**(69,000)**	2,752
Amounts advanced to jointly controlled entities		**–**	(21,790)
Amount advanced to an associate		**–**	(61,000)
Decrease (increase) in pledged bank deposits		**162,963**	(162,963)
Amount advanced to a minority shareholder of a subsidiary		**–**	(4,000)
Net cash from financing activities		**569,431**	1,585,916
Net (decrease) increase in cash and cash equivalents		**(53,540)**	709,555
Cash and cash equivalents at beginning of the year		**1,621,092**	911,537
Cash and cash equivalents at end of the year		**1,567,552**	1,621,092
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		**1,567,552**	1,621,092

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 consolidated financial statements are presented in Renminbi, which is also the functional currency of the Company.

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

2. Application of New Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new standard, amendments, and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. 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 or prior accounting periods have been prepared and presented.

Financial guarantee contracts

In the current year, the Group has applied Hong Kong Accounting Standard ("HKAS") 39 and HKFRS 4 (Amendments) *Financial guarantee contracts* which is effective for annual periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 *Financial Instruments: Recognition and Measurement* as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

The Group acts as the issuer of the financial guarantee contracts

Prior to 1 January 2006, financial guarantee contracts were not accounted for in accordance with HKFRS 4 *Insurance Contract* and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

In relation to a financial guarantee granted to a bank over the repayment of a loan by an associate, the Group has applied the transitional provisions in HKAS 39. The fair value of the financial guarantee contract at the date of grant of RMB4,910,000, representing a deemed capital contribution to the associate, has been adjusted to the carrying amount of interests in associates. The unamortised amount of RMB4,910,000 at 1 January 2005 has been recognised as a financial liability for the financial guarantee contract. This change in accounting policy has resulted in an increase in profit for the year (see note 4 for the financial impact).

New standards, amendment or interpretations issued but not yet effective

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

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

New standards, amendment or interpretations issued but not yet effective *(continued)*

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangement[8]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 March 2006
[4] Effective for annual periods beginning on or after 1 May 2006
[5] Effective for annual periods beginning on or after 1 June 2006
[6] Effective for annual periods beginning on or after 1 November 2006
[7] Effective for annual periods beginning on or after 1 March 2007
[8] Effective for annual periods beginning on or after 1 January 2008

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited and by the Hong Kong 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 accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved were the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 presented separately from the Group's equity therein. Minority interests in the net assets 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 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 Business Combinations 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 profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equal or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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 joint ventures

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated 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 profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. Where the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognised its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or construction obligations or made payments on behalf of that jointly controlled entity.

3. Significant Accounting Policies *(continued)*

Interests in joint ventures *(continued)*

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.

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.

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 at the date of acquisition.

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.

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 for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary, at the date of acquisition. Such goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

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. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. 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. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, 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 an jointly controlled entity is described under 'Interests in associates' and 'Interests in jointly controlled entities' above.

3. Significant Accounting Policies *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods or services provided in normal course of business, net of discounts and sales related taxes.

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

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

Interest income from a financial asset 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 subsequent accumulated depreciation and identified impairment losses.

Buildings are stated in the consolidated balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated 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 consolidated 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 the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the property revaluation reserve is transferred to accumulated profits.

Depreciation and amortisation is provided to write off the costs or fair value of property, plant and equipment other than construction in progress, over their estimated useful lives, and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement in the year in which the item is derecognised.

3. Significant Accounting Policies *(continued)*

Investment property

Investment property is property held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. 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.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development costs

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

3. Significant Accounting Policies *(continued)*

Intangible assets *(continued)*

Impairment

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

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.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

3. Significant Accounting Policies *(continued)*

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. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Receivables

Receivables (including trade and other receivables, 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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 through profit or loss 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.

3. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Bank and other loans

Interest-bearing bank overdrafts and bank and other loans 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.

Financial liabilities at fair value through profit or loss

Conversion option of convertible bonds issued by the Group which is settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity instruments is a conversion option derivative which is not closely related to the liability component of the convertible bonds. The Group has designated the entire instrument as financial liability carried at fair value through profit or loss. At initial recognition and in subsequent periods, the convertible bonds is measured at fair value through profit or loss with changes in fair value recognised directly in profit or loss in the period in which they arise.

Payables (other than bank and other loans)

Payables (including trade and other payables, 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 entity after deducting all of its liabilities.

Equity instruments issued by the Company 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.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

3. Significant Accounting Policies *(continued)*

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 receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised 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 paid and payable 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 in the consolidated income statement 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 as an expense 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 recognised as a reduction of rental expense over the lease term on a straight-line basis.

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.

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 respect of which gains and losses are recognised directly in equity, in which cases, the exchange difference are also recognised directly in equity.

3. Significant Accounting Policies *(continued)*

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 return 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 Mandatory Provident Fund Scheme/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 consolidated 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 consolidated 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 (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 is realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. Significant Accounting Policies *(continued)*

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve .

4. Restatements

In the current year, the Group has made the following restatements:

(a) During the year ended 31 December 2005, the Group acquired certain subsidiaries and business of which the fair values of the identifiable assets, liabilities and contingent liabilities acquired were determined provisionally. During the year, the Group made certain fair value adjustments with reference to the valuation report to the carrying amounts of the identifiable assets and liabilities of the subsidiaries and business acquired as a result of completing the initial accounting. The adjustments to the fair values at the acquisition date of the identifiable assets, liabilities and contingent liabilities were made as if initial accounting had been incorporated from acquisition date.

(b) As mentioned in note 2, the Group has applied HKAS 39 and HKFRS 4 (Amendments) *Financial guarantee contracts* in the current year for financial guarantees granted to a bank over the repayment of a loan by an associate. The fair value of the financial guarantee contract at the date of grant, representing a deemed capital contribution to the associate, has been adjusted to the carrying amount of interests in associates and recognised as a financial liability for the financial guarantee contract at 1 January 2005.

(c) In the current year, the management has performed a reassessment of the functional currency of the Company and considered RMB to be the Company's functional currency. As a result, the conversion option of the convertible bonds issued by the Company in prior years which is settled other than by the exchange of a fixed amount of cash for a fixed number of shares is a conversion option derivative instead of an equity instrument. The Group accounted for the convertible bonds as financial liability at fair value through profit or loss. The adjustments are made retrospectively.

4. Restatements *(continued)*

The cumulative effects of the above restatements on the consolidated balance sheet as at 31 December 2005 are summarised as below:

	As at 31 December 2005 (originally stated) RMB'000	Subsequent fair value adjustments RMB'000	Financial guarantee RMB'000	Functional currency RMB'000	Reclassification RMB'000	As at 31 December 2005 (restated) RMB'000
Balance sheet items						
Goodwill	147,996	(14,950)	–	–	–	133,046
Other intangible assets	14,620	42,651	–	–	–	57,271
Interests in associates	128,661	–	4,910	–	(57,000)	76,571
Amount due from an associate						
– non-current	–	–	–	–	57,000	57,000
Financial guarantee liability						
– current	–	–	(1,228)	–	–	(1,228)
– non-current	–	–	(2,455)	–	–	(2,455)
Convertible bonds	(448,933)	–	–	(107,467)	–	(556,400)
Deferred taxation	(8,398)	(13,180)	–	–	–	(21,578)
Other assets and liabilities	3,016,922	–	–	–	–	3,016,922
Total effects on assets and liabilities	2,850,868	14,521	1,227	(107,467)	–	2,759,149
Share premium	1,200,265	–	–	2,022	–	1,202,287
Translation reserve	9,566	–	–	(9,566)	–	–
Convertible bond-equity reserve	46,099	–	–	(46,099)	–	–
Accumulated profits	888,747	5,637	1,227	(53,824)	–	841,787
Minority interests	518,779	8,884	–	–	–	527,663
Other reserve items	187,412	–	–	–	–	187,412
Total effects on equity	2,850,868	14,521	1,227	(107,467)	–	2,759,149

The effects of the restatements on the Group's equity at 1 January 2005 are summarised below:

	As at 1 January 2005 (originally stated) RMB'000	Functional currency RMB'000	As at 1 January 2005 (restated) RMB'000
Convertible bond-equity reserve	53,896	(53,896)	–
Accumulated profits	637,067	(14,244)	622,823
Total effects on equity	690,963	(68,140)	622,823

4. Restatements *(continued)*

The effects of the above restatements on the results for the current and prior year are as follows:

	2006 RMB'000	2005 RMB'000
(i) HKAS 39 and HKFRS 4 (Amendments)		
Income from financial guarantee	**1,793**	1,227
(ii) Other adjustments		
Discount on acquisition of a subsidiary	**–**	10,898
Amortisation of intangible assets	**(2,371)**	(1,139)
Decrease in taxation	**709**	376
Loss on fair value change of convertible bonds	**(4,392)**	(56,153)
Decrease in interest expense on convertible bonds	**3,286**	16,867
Decrease in exchange gain	**–**	(147)
	(2,768)	(29,298)
Decrease in profit for the year	**(975)**	(28,071)
Attributable to:		
Equity holders of the Company	**(975)**	(32,569)
Minority interests	**–**	4,498
	(975)	(28,071)
Decrease in basic earnings per share	**(0.1 cents)**	(3.6 cents)
Decrease in diluted earnings per share	**(0.1 cents)**	(3.6 cents)

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

	2006 RMB'000	2005 RMB'000
Increase in other income	**1,793**	11,978
Fair value changes on convertible bonds	**(4,392)**	(56,153)
Increase in other expenses	**(2,371)**	(1,139)
Decrease in finance costs	**3,286**	16,867
Decrease in taxation	**709**	376
Decrease in profit for the year	**(975)**	(28,071)

5. 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 2006, the carrying amount of goodwill is RMB184,267,000. 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 18.

Income taxes

As at 31 December 2006, the Group has unused tax losses of RMB317,219,000 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 uncertainty 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.

Estimated impairment of trade and other receivables

The Company makes impairment of trade and other receivables based on an assessment of the recoverability of receivables. Impairment loss are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment loss requires the use of judgment and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the periods in which such estimate has been changed.

6. Financial Instruments

a. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, derivative financial instruments, amounts due from/to associates, jointly controlled entities and related companies, trade and other payables, bank and other loans, convertible bonds, guaranteed notes and bank balances . 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, convertible bonds 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. Currently, all the operations of the Group are in PRC, the appreciation of RMB will benefit the Group for repaying foreign currency loan in the future.

6. Financial Instruments *(continued)*

a. Financial risk management objectives and policies *(continued)*

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 had entered 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 notes 33 and 37 for details of these borrowings and notes respectively). In relation to the notes, the Group aims at keeping the notes 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.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variables-rate bank borrowing (see note 33 for details of these borrowings).

Price risk

The Group issued a convertible bond which allows the holder to convert into its ordinary share. Hence, it is exposed to the price risk of its shares which are listed on the Stock Exchange.

Credit risk

As at 31 December 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties or debtors which the Group has provided financial guarantees is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount disclosed in note 35 Financial Guarantee Liability.

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.

b. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, the fair value of a non-optional derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

7. Revenue

	2006 RMB'000	2005 RMB'000
Revenue comprises the following:		
Gas connection fees	**1,354,892**	1,033,260
Sales of piped gas	**1,623,510**	767,552
Distributions of bottled liquefied petroleum gas	**282,606**	191,463
Sales of gas appliances	**135,528**	64,551
	3,396,536	2,056,826

8. Other Income

	2006 RMB'000	2005 RMB'000 (Restated)
Included in other income are:		
Miscellaneous sales	**7,566**	24,871
Incentive subsidies (note a)	**14,343**	20,546
Interest income	**82,563**	18,403
Compensation received (note b)	**–**	13,900
Gain on foreign exchange	**41,251**	11,425
Gain on disposal of investment properties	**784**	–
Gain on disposal of interest in leasehold land	**2,224**	–
Increase in fair value of interest in leasehold land upon transfer to investment properties	**–**	5,801
Pipeline transmission income	**1,606**	5,785
Rental income from investment properties	**4,244**	4,145
Repair and maintenance income	**6,432**	3,468
Increase in fair value of investment properties	**508**	1,000
Discount on acquisition (note 40 (a))	**5,007**	10,898
Gain on dilution of interest in subsidiary (note 41(b))	**15,144**	–
Income from conversion of fuel pipes of vehicles	**7,006**	–
Financial guarantee income	**1,793**	1,227

Notes:

(a) The amount represents refunds of various taxes as incentives by the government authorities in various cities of the PRC. Last year balance included an one-off incentive subsidy amounting to RMB9,000,000 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.

(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.

In 2005, compensation income of RMB13,900,000 was recognised as income. During the year, no further compensation is granted to Changsha Xinao since the coal gas operation has been ceased.

9. Finance Costs

	2006 RMB'000	2005 RMB'000 (Restated)
Interest on:		
Bank and other loans wholly repayable within five years	46,096	50,591
Bank loans not wholly repayable within five years	73,618	34,025
Guaranteed notes	121,724	22,373
	241,438	106,989
Less: Amount capitalised under construction in progress	(38,014)	(33,606)
	203,424	73,383

10. Profit before Taxation

	2006 RMB'000	2005 RMB'000 (Restated)
Profit before taxation has been arrived at after (crediting) charging:		
Allowance for bad and doubtful debts	39,720	15,314
Amortisation of intangible assets included in other expenses	10,765	1,666
Amortisation of prepaid lease payments	5,819	4,967
Auditor's remuneration	5,710	3,080
Depreciation of property, plant and equipment	183,055	110,032
Revaluation deficit of property, plant and equipment	1,259	370
Loss on disposal of property, plant and equipment	7,273	2,557
Minimum lease payments under operating leases in respect of land and buildings	10,606	8,550
Research and development expenses	458	485
Staff costs	327,387	193,964
Less: Amount capitalised under construction in progress	(12,463)	(13,747)
	314,924	180,217
Share of tax of associates (included in share of results of associates)	1,155	–
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	792	3

11. Remuneration of Directors and Employees

(a) Directors' emoluments

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

	2006				
Name of Directors	Fee RMB'000	Salaries and allowance RMB'000	Share-based payment RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Wang Yusuo	–	1,345	–	–	1,345
Yang Yu	–	1,037	6,960	–	7,997
Chen Jiacheng	–	144	6,463	38	6,645
Zhao Jinfeng	–	522	6,463	28	7,013
Qiao Limin	–	414	6,463	–	6,877
Jin Yongsheng	72	223	6,463	1	6,759
Yu Jianchao	–	414	–	–	414
Cheung Yip Sang	–	514	5,667	28	6,209
Cheng Chak Ngok	–	538	795	12	1,345
Zhao Baoju	62	–	–	–	62
Wang Guangtian	62	–	–	–	62
Yien Yu Yu, Catherine	124	–	–	–	124
Kong Chung Kau	124	–	–	–	124
	444	5,151	39,274	107	44,976

	2005			
Name of Directors	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

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

(a) Directors' emoluments *(continued)*

The amounts disclosed above include directors' fees of RMB310,000 (2005: RMB284,000) 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 2006 and 2005 were all directors of the Company and details of their emoluments are included in note (a) above.

12. Taxation

	2006 RMB'000	2005 RMB'000 (Restated)
Current tax	**58,360**	43,125
Overprovision in prior years	**(5,747)**	(4,406)
	52,613	38,719
Deferred tax (note 38)	**(2,841)**	(376)
	49,772	38,343

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 Company 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:

	2006 RMB'000	2005 RMB'000 (Restated)
Profit before taxation	**533,632**	400,540
Tax at the PRC enterprise income tax rate of 33%	**176,099**	132,178
Tax effect of share of results of associates	**(1,546)**	(375)
Tax effect of share of results of jointly controlled entities	**(21,822)**	(6,909)
Tax effect of expenses not deductible for tax purpose	**54,729**	74,662
Tax effect of income not taxable for tax purpose	**(18,217)**	(21,936)
Tax effect of tax losses not recognised	**56,321**	23,428
Utilisation of tax losses previously not recognised	**(896)**	(2,296)
Tax effect of deductible temporary differences not recognised	**7,860**	–
Overprovision in respect of prior year	**(5,747)**	(4,406)
Effect of tax concession granted to PRC subsidiaries	**(178,979)**	(139,668)
Effect of different tax rates of subsidiaries	**(18,030)**	(16,335)
Tax charge for the year	**49,772**	38,343

In addition to the income tax expense charged to consolidated income statement, a deferred tax charge of RMB2,449,000 (2005: deferred tax credit of RMB1,333,000) has been recognised in equity in the year (see note 38).

13. Dividends

	2006 RMB'000	2005 RMB'000
Final dividend paid in respect of 2005 of HKD.4.81 cents (2004: HKD2.71 cents) per share (equivalent to approximately RMB5.00 cents per share (2004: RMB2.87 cents per share))	**46,333**	25,254
Final dividend proposed in respect of 2006 of HKD7.75 cents (2005: HKD4.81cents) per share (equivalent to approximately RMB7.79 cents per share (2005: RMB5.00 cents per share))	**75,923**	45,440

The final dividend in respect of 2006 of HKD7.75 cents (2005: HKD4.81 cents) (equivalent to approximately RMB7.79 cents (2005: RMB5.00 cents)) per share on 973,958,599 shares (2005: 908,371,488 shares) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. 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:

	2006 RMB'000	2005 RMB'000 (Restated)
Earnings		
Earnings for the purposes of basic earnings per share	**379,617**	270,549
Effect of dilutive potential ordinary shares:		
Fair value changes on convertible bonds	**4,392**	–
Earnings for the purposes of diluted earnings per share	**384,009**	270,549

	2006 Number of shares	2005 Number of shares
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**936,924,000**	888,491,000
Effect of dilutive potential ordinary shares:		
– share options	**2,344,500**	4,177,000
– convertible bonds	**53,826,000**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**993,094,500**	892,668,000

The computation of diluted earnings per share for 2005 does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

15. 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 2005	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 1 January 2006	257,621	2,327,116	157,597	157,684	56,879	810,956	3,767,853
Acquisition of subsidiaries	1,395	–	254	253	35	1,066	3,003
Additions	61,923	72,022	116,008	99,438	70,450	1,436,717	1,856,558
Reclassification	111,352	1,085,317	61,443	1,638	336	(1,260,086)	–
Disposals	(7,023)	(2,446)	(19,163)	(9,481)	(809)	–	(38,922)
Net surplus on valuation	(15,534)	–	–	–	–	–	(15,534)
At 31 December 2006	409,734	3,482,009	316,139	249,532	126,891	988,653	5,572,958
Comprising:							
At cost	–	3,482,009	316,139	249,532	126,891	988,653	5,163,224
At valuation 2006	409,734	–	–	–	–	–	409,734
	409,734	3,482,009	316,139	249,532	126,891	988,653	5,572,958
DEPRECIATION AND AMORTISATION							
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 1 January 2006	–	149,090	36,744	33,865	13,181	–	232,880
Provided for the year	21,286	90,198	36,156	26,008	9,407	–	183,055
Eliminated on disposals	(1,729)	(504)	(5,706)	(6,850)	(468)	–	(15,257)
Eliminated on valuation	(19,557)	–	–	–	–	–	(19,557)
At 31 December 2006	–	238,784	67,194	53,023	22,120	–	381,121
CARRYING VALUES							
At 31 December 2006	**409,734**	**3,243,225**	**248,945**	**196,509**	**104,771**	**988,653**	**5,191,837**
At 31 December 2005	257,621	2,178,026	120,853	123,819	43,698	810,956	3,534,973

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

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis 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

At the balance sheet date, the Group is in the process of obtaining title deeds from certain joint venture partners for its buildings in the PRC amounting to approximately RMB166,830,000(2005: RMB60,713,000). 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 at 31 December 2006, resulting in a revaluation surplus of RMB4,023,000 (2005: revaluation deficit of RMB3,798,000), of which RMB5,282,000 (2005: RMB3,428,000 debited) has been credited to the property revaluation reserve and RMB1,259,000 (2005: RMB370,000 debited) has been debited to consolidated income statement. The valuation was carried out by Knight Frank Petty Limited, independent qualified professional valuers not connected with the Group, on an open market value basis. Knight Frank 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 International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. At 31 December 2006, the carrying value of these revalued buildings amounted to RMB409,734,000 (2005: RMB257,621,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation of RMB368,535,000 (2005: RMB226,904,000).

Included in construction in progress is interest capitalised of approximately RMB71,620,000 (2005: RMB33,606,000).

16. Prepaid Lease Payments

The Group's prepaid lease payments comprises:

	2006 RMB'000	2005 RMB'000
Land in Hong Kong under long leases	**15,884**	16,236
Land in the PRC under medium term land use rights	**365,903**	259,422
	381,787	275,658
Analysed for reporting purposes as:		
Non-current portion	**375,200**	269,882
Current portion	**6,587**	5,776
	381,787	275,658

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 RMB9,166,000 (2005: RMB7,997,000). 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.

17. 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
Net increase in fair value recognised in the income statement	1,000
At 1 January 2006	71,602
Disposal during the year	(1,225)
Net increase in fair value recognised in the income statement	508
At 31 December 2006	70,885

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.

	2006 RMB'000	2005 RMB'000
The carrying value of investment properties shown above comprises:		
Land in Hong Kong under long lease	**12,841**	12,389
Land in PRC under medium term lese	**58,044**	59,213
	70,885	71,602

The fair value of the Group's investment properties at 31 December 2006 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, independent qualified professional valuers not connected with the Group, on an open market value basis. Knight Frank 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 International Valuation Standards, 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 RMB47,980,000 (2005: 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 RMB4,244,000 (2005: RMB4,145,000).

18. Goodwill

	RMB'000	RMB'000 (Restated)
COST		
At 1 January 2005		79,552
Arising on:		
Acquisition of subsidiaries		
– as previously stated	58,877	
– fair value adjustments (note a and note 40(b)(ii) & (iii))	(14,302)	44,575
Acquisition of businesses		
– as previously stated	9,567	
– fair value adjustments (note a and note 41(f))	(648)	8,919
At 1 January 2006		133,046
Arising on:		
Acquisition of businesses (note b and note 41)		51,282
Eliminated on deregistration of a subsidiary		(61)
At 31 December 2006		184,267

Notes:

(a) During the year ended 31 December 2005, the Group acquired certain subsidiaries and business of which the fair values of the identifiable assets, liabilities and contingent liabilities acquired were determined provisionally. During the year, the Group made certain fair value adjustments with reference to the valuation report to the carrying amounts of the identifiable assets and liabilities of 長沙星沙新奧燃氣有限公司, 杭州蕭山管道燃氣有限公司 and 台州新奧燃氣有限公司, which were acquired on 30 June 2005 and 27 December 2005 and established on 18 March 2005, respectively. The adjustments to the fair values at the acquisition date of the identifiable assets, liabilities and contingent liabilities were made as if initial accounting had been incorporated from acquisition date. Accordingly, goodwill arising on acquisition of subsidiaries and acquisition of business for the year ended 31 December 2005 decreased by RMB14,302,000 and RMB648,000, respectively.

As a result of completing the initial accounting, the profit for the year ended 31 December 2005 was increased by RMB10,898,000, being the excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of長沙星沙新奧燃氣有限公司.

(b) During the year, the Group entered into joint venture contracts with certain independent third parties in the PRC. Under the terms of contracts, the Group agreed to inject capital into the subsidiaries in cash and the PRC joint venture partners agreed to inject capital into the subsidiaries in the form of cash and non-cash assets. Upon completion of the capital injection by both parties, the Group recognised an amount of RMB36,980,000, 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.

In addition, the Group acquired several other businesses from independent third parties during the year. The Group recognised an amount of RMB14,302,000 (2005: Nil), representing the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business, at the date of acquisition.

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 cash generating unit (the "CGU") for the purpose of goodwill impairment testing. At 31 December 2006, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of:

	RMB'000
Lianyungang Xinao Gas Development Company Limited	17,628
Jinhua Xinao Gas Company Limited	13,626
Kaifeng Xinao Gas Company Limited	15,833
Hangzhou Xiaoshan Piped Gas Development Company Limited	37,011
Zhanjiang Xinao Gas Company Limited	36,980
Other subsidiaries	63,189
	184,267

18. Goodwill *(continued)*

The recoverable amounts of 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 1.30% to 19.84% 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.

19. Other Intangible Assets

	Rights of operation RMB'000 (Restated)	**Customer base** RMB'000 (Restated)	**Total** RMB'000
COST			
At 1 January 2005	15,800	–	15,800
Acquired on acquisition of subsidiaries (note 40(b))	41,000	1,980	42,980
Acquired on acquisition of businesses (note 41(f))	–	810	810
At 1 January 2006 (restated)	56,800	2,790	59,590
Addition (note a)	69,990	–	69,990
Acquired on acquisition of subsidiaries (note 40(a))	7,370	320	7,690
Acquired on acquisition of businesses (note 41)	116,000	27,200	143,200
At 31 December 2006	250,160	30,310	280,470
AMORTISATION			
At 1 January 2005	653	–	653
Charge for the year	1,666	–	1,666
At 1 January 2006 (restated)	2,319	–	2,319
Charge for the year	9,659	1,106	10,765
At 31 December 2006	11,978	1,106	13,084
CARRYING VALUES			
At 31 December 2006	**238,182**	**29,204**	**267,386**
At 31 December 2005	54,481	2,790	57,271

Notes:

(a) During the year, pursuant to the terms of a joint venture contract, the Group and the PRC joint venture partner injected capital in cash into a newly established subsidiary, namely 泉州市燃氣有限公司, which the Group owns 60% of the registered capital. In addition to the cash contribution in proportion to the registered capital held by the Group, the Group paid an additional cost of RMB69,990,000 to the PRC government for the right to invest in this subsidiary. The amount paid represents the right of operation in Quanzhou City and is amortised over the operation period of 29 years.

(b) All other rights of operation and customer base are amortised on a straight-line method over the operation period ranging from 18 to 30 years.

20. Interests in Associates

	2006 RMB'000	2005 RMB'000 (Restated)
Cost of unlisted investment	**335,673**	76,756
Share of post-acquisition profits (losses)	**4,500**	(185)
	340,173	76,571

Details of the Group's associates as at 31 December 2006 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 Co., Ltd.")	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 a)	Production and sales of liquefied natural gas ("LNG") 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
長沙市鑫能車用燃氣有限公司 ("Changsha City Xinneng Vehicle Gas Company Limited")	Incorporated	The PRC	30%	Production and sale of CNG and LNG for vehicle use
咸陽新奧燃氣有限公司 ("Xianyang Xinao Gas Company Limited")	Incorporated	The PRC	40%	Investment in gas pipeline infrastructure and vehicle gas refuelling station, and sales of piped gas and LPG

20. Interests in Associates *(continued)*

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group	Principal activities
上海九環汽車液化氣發展股份有限公司 ("Shanghai Jiuhuan Automobile Liquid Gas Development Joint-stock Company Limited")	Incorporated	The PRC	54.57% (note b)	Investment in LPG for vehicle use
上海九環汽車天然氣發展有限公司 ("Shanghai Jiuhuan Automobile Natural Gas Development Company Limited")	Incorporated	The PRC	56.37% (note c)	Investment in natural gas facilities for vehicle use and vehicle gas refuelling stations
上海九環交通大眾油汽供應有限公司 ("Shanghai Jiuhuan Transport Dazhong Oil and Gas Supply Company Limited")	Incorporated	The PRC	47.29%	Sales of LPG, gasoline and diesel fuel
上海九環大眾油汽供應有限公司 ("Shanghai Jiuhuan Dazhong Oil and Gas Supply Company Limited")	Incorporated	The PRC	40.91%	Retail of petroleum products and LPG
新能能源有限公司 ("Xinneng Energy Company Limited")	Incorporated	The PRC	15% (note d)	Production of methanol and dimethylether

Notes:

(a) The Group holds direct interest of 38% and indirect effective interest of 30% through another associate 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.

(b) The Group holds 54.57% of the issued share capital of Shanghai Jiuhuan Automobile Liquid Gas Development Joint-stock Company Limited. However, under the joint venture agreement, the Group does not have the power to govern the financial and operating policies of the entity and it is therefore classified as an associate of the Group.

(c) The Group holds direct interest of 40% and indirect effective interest of 16.37% through another associate in the registered capital of Shanghai Jiuhuan Automobile Natural Gas Development Company Limited. The directors of the Company consider that the Group exercises significant influence over the entity and it is therefore classified as an associate of the Group.

(d) The Group holds 15% interest in 新能能源有限公司 and has the power to appoint two directors out of a total eleven directors. Accordingly, the directors of the Company consider that the Group exercises significant influence over this entity and it is therefore classified as an associate of the Group.

20. Interests in Associates *(continued)*

Included in the cost of investment in associates is goodwill of RMB71,111,000 (2005: RMB6,797,000) arising on acquisitions of associates. The movement of goodwill is set out below.

	RMB'000
COST	
At 1 January 2005 and 31 December 2005	6,797
Arising on acquisition of associates	64,314
At 31 December 2006	71,111

At the balance sheet date, the carrying amount of goodwill represents goodwill arising from the acquisition of:

	RMB'000
Yancheng Changjian Gas Co., Limited	6,797
Xianyang Xinao Gas Company Limited	16,646
Shanghai Jiuhuan Automobile Liquid Gas Development Joint-stock Company Limited	35,423
Shanghai Jiuhuan Transport Dazhong Oil and Gas Supply Company Limited	1,019
Shanghai Jiuhuan Dazhong Oil and Gas Supply Company Limited	11,226
	71,111

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

	2006 RMB'000	2005 RMB'000 (Restated)
Total assets	**1,582,853**	399,654
Total liabilities	**(737,351)**	(224,444)
Net assets	**845,502**	175,210
Deemed capital contribution - financial guarantee	**4,910**	4,910
Group's share of net assets of associates	**264,152**	64,864
Goodwill on acquisition of associates	**71,111**	6,797
	340,173	76,571
Revenue	**815,299**	26,409
Profit for the year	**4,393**	4,679
Group's share of results of associates for the year	**4,685**	1,136

21. Interests in Jointly Controlled Entities

	2006 **RMB'000**	2005 RMB'000
Cost of unlisted investments	**226,447**	217,897
Shares of post-acquisition profits, net of dividends received	**69,083**	17,535
	295,530	235,432

Details of the Group's jointly controlled entities as at 31 December 2006 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
烟臺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
株州新奧燃氣發展有限公司 ("Zhuzhou Xinao Gas Development Company Limited")	Incorporated	The PRC	55% (note)	Sales of piped gas

Note: The Group holds 55% of the registered capital of Zhuzhou Xinao Gas Development Company Limited and controls 55% of the voting power in general meeting, However, under the joint venture agreement, Zhuzhou Xinao Gas Development Company Limited is jointly controlled by the Group and the other significant shareholder and it is therefore classified as a jointly controlled entity of the Group.

Included in the cost of investments in jointly controlled entities is deemed capital contribution of RMB840,000 in relation to financial guarantee contract issued by the Group and goodwill of RMB7,644,000 (2005:RMB7,644,000) arising on acquisitions of jointly controlled entities in 2005.

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

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

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

	2006 RMB'000	2005 RMB'000
Current assets	**464,180**	412,100
Non-current assets	**1,148,137**	870,099
Current liabilities	**431,152**	308,594
Non-current liabilities	**605,870**	463,980
Income	**742,611**	255,936
Expenses	**605,414**	215,201

22. Available-for-sale Investments

	2006 RMB'000	2005 RMB'000
Unlisted equity securities, at cost less impairment	**13,840**	2,600
Equity security listed in Hong Kong, at quoted bid price	**4,580**	–
	18,420	2,600

The above unlisted investment represents investment in unlisted equity securities issued by private entities 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. Inventories

	2006 RMB'000	2005 RMB'000
Construction materials	**94,778**	54,152
Gas appliances	**32,748**	34,686
Piped gas	**18,090**	9,004
Bottled liquefied petroleum gas	**11,192**	8,825
Spare parts and consumable	**14,410**	9,046
	171,218	115,713

The cost of inventories recognised as an expense during the year was RMB1,532,061,000 (2005: RMB994,371,000).

24. Trade and Other Receivables

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

	2006 RMB'000	2005 RMB'000
The following is an aged analysis of trade receivable:		
0 – 3 months	**277,354**	179,424
4 – 6 months	**49,036**	32,788
7 – 9 months	**46,630**	53,359
10 – 12 months	**11,336**	18,287
More than 1 year	**–**	3,618
Trade receivables	**384,356**	287,476
Prepayments, deposits and other receivables	**413,539**	291,947
	797,895	579,423

Included under trade receivables are retentions held by customers for contract work amounted to RMB1,204,000 (2005: RMB2,090,000).

25. Derivative Financial Instruments

	31.12.2006		31.12.2005	
	Assets RMB'000	**Liabilities RMB'000**	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	**–**	**46,012**	–	49,662
	–	**46,012**	5,504	49,662

Major terms of the interest rate swaps 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.

26. Amounts due from(to) Customers for Contract Work

	2006 RMB'000	2005 RMB'000
Contract costs incurred plus recognised profits	**555,745**	488,712
Less: Progress billings	**(524,404)**	(455,504)
	31,341	33,208
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**311,243**	216,286
Amounts due to customers for contract work	**(279,902)**	(183,078)
	31,341	33,208

27. Amounts due from/to Associates

Except for an unsecured amount due from an associate of RMB83,000,000 (2005: RMB57,000,000) bears interest at 6.12% per annum and repayable in 2008, the balances are unsecured, interest free and repayable on demand.

28. Amounts due from/to Jointly Controlled Entities

Except for an unsecured amount due from a jointly controlled entity of RMB69,000,000(2005: Nil) bears interest at 6.12% per annum and repayable in 2009, the balances are unsecured, interest free and repayable on demand.

29. Amounts due from Related Companies

	Balance at 31.12.2006 RMB'000	**Balance at 1.1.2006** RMB'000	**Maximum amount outstanding during 2006** RMB'000
Amounts due from minority shareholders of subsidiaries	74,434	12,245	82,870
Amounts due from companies controlled by a major shareholder and director (note a)	27,350	39,873	87,837
	101,784	52,118	

Note:

(a) The related companies are controlled by Mr. Wang Yusuo ("Mr. Wang") who is the major shareholder and director of the Company.

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

29. Amounts due from Related Companies *(continued)*

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

	2006 RMB'000	2005 RMB'000
0 – 3 months	**52,718**	34,066
4 – 6 months	**21,075**	4,219
7 – 9 months	**10,414**	2,118
10 – 12 months	**780**	4,423
More than 1 year	**16,797**	7,292
	101,784	52,118

30. Pledged Bank Deposits/Bank Balances and Cash

Pledged bank deposits, 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 0.72% to 2.25%.

31. Trade and Other Payables

	2006 RMB'000	2005 RMB'000
The following is an aged analysis of trade payable:		
0 – 3 months	**487,612**	213,772
4 – 6 months	**63,140**	64,340
7 – 9 months	**45,334**	17,364
10 – 12 months	**36,651**	16,378
More than 1 year	**70,735**	35,838
Trade payables	**703,472**	347,692
Advances received from customers	**549,463**	216,381
Accrued charges and other payables	**373,024**	165,831
	1,625,959	729,904

32. Amounts due to Related Companies

	2006 RMB'000	2005 RMB'000
Amounts due to minority shareholders of subsidiaries	**3,183**	488
Amounts due to companies controlled by a major shareholder and director (note a)	**14,849**	19,308
	18,032	19,796

Notes:

(a) The related companies are controlled by Mr. Wang who is the major shareholder and director of the Company.

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

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

	2006 RMB'000	2005 RMB'000
0 – 3 months	**14,161**	17,348
4 – 6 months	**694**	460
7 – 9 months	**1,622**	1,134
10 – 12 months	**395**	573
More than 1 year	**1,160**	281
	18,032	19,796

33. Bank and Other Loans

	2006 RMB'000	2005 RMB'000
Bank loans		
Secured	**1,504,258**	401,947
Unsecured	**810,149**	1,125,593
	2,314,407	1,527,540
Unsecured other loans	**55,471**	–
	2,369,878	1,527,540
The bank and other loans are repayable:		
Within one year	**619,140**	566,457
Between one to two years	**159,337**	9,328
Between two to five years	**251,023**	229,123
More than five years	**1,340,378**	722,632
	2,369,878	1,527,540
Less: Amount due within one year shown under current liabilities	**(619,140)**	(566,457)
Amount due after one year	**1,750,738**	961,083

Borrowings comprise:

	Maturity date	Effective interest rate	Carrying amount 2006 RMB'000	Carrying amount 2005 RMB'000
Fixed-rate borrowings:				
6.12% secured RMB bank loan of RMB50,000,000	5/9/2007	6.12%	**50,000**	67,900
5.51% - 6.39% unsecured RMB bank loan of RMB567,491,000	5/1/2007–20/3/2015	6.10%	**567,490**	448,745
2.55% unsecured RMB other loan of RMB55,470,610	12/6/2017	2.55%	**55,471**	–
			672,961	516,645

33. Bank and Other Loans *(continued)*

	Maturity date	Effective interest rate	Carrying amount 2006 RMB'000	2005 RMB'000
Floating-rate borrowings:				
Unsecured RMB bank loan of RMB66,999,000 at People's Bank of China ("PBOC") base rate	12/1/2007–23/1/2008	5.62%	**66,999**	475,093
Secured RMB bank loan of RMB1,445,242,000 at PBOC base rate	2/3/2007–31/12/2020	6.12%	**1,445,242**	323,555
Unsecured USD bank loan of USD22,500,000 at LIBOR plus 1.5%	28/5/2009–15/12/2009	6.62%	**175,660**	201,755
Secured HKD bank loan of HKD8,974,000 at Prime rate minus 2.8%	11/7/2013	4.95%	**9,016**	10,492
			1,696,917	1,010,895
Total borrowings			**2,369,878**	1,527,540

34. Share Capital

	2006 Number of shares	2005 Number of shares	2006 HK$'000	2005 HK$'000
Shares of HK$0.10 each				
Authorised:				
At beginning and end of the year	**3,000,000,000**	3,000,000,000	**300,000**	300,000
Issued and fully paid:				
At beginning of the year	**904,233,560**	867,487,500	**90,423**	86,749
Issue of shares on exercise of share options	**–**	22,112,500	**–**	2,211
Issue of shares on conversion of convertible bonds	**69,725,039**	14,633,560	**6,973**	1,463
At end of the year	**973,958,599**	904,233,560	**97,396**	90,423

34. Share Capital *(continued)*

	2006 RMB'000	2005 RMB'000
Presented in financial statements as:		
At beginning of the year	**95,819**	91,954
Issue of shares on exercise of share options	**–**	2,343
Issue of shares on conversion of convertible bonds	**7,006**	1,522
At end of the year	**102,825**	95,819

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 pursuant to the 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.

During the year ended 31 December 2006, various convertible bond holders converted HK$379,130,000 convertible bonds into 69,725,039 shares of HK$0.10 each. These shares were converted at HK$5.4375 per share. These shares rank pari passu with the existing shares in all respects.

35. Financial Guarantee Liability

	2006 RMB'000	2005 RMB'000 (Restated)
Financial guarantee contracts		
– current	**1,502**	1,228
– non-current	**1,228**	2,455
	2,730	3,683

As at 31 December 2006, the Group had issued guarantees to banks to secure loan facilities granted to an associate and a jointly controlled entity to the extent of RMB40,000,000 for a 4-year loan (2005: RMB40,000,000) and RMB57,000,000 for 1-year loans (2005: RMB37,000,000), respectively of which the amounts have been utilised at the balance sheet dates..

In the current year, the Group applied HKAS 39 and HKFRS 4 (Amendments) to recognise the fair value of the financial guarantee contract at the date of grant of financial guarantee in accordance with the transitional provision of HKAS 39 (see note 4 for the financial impact).

The fair value of the financial guarantee issued to banks to secure loan facilities granted to a jointly controlled entity in 2005 had not been recognised as the directors consider that the amount would not be significant.

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). The net proceeds amounted to HK$534,205,000 (equivalent to approximately RMB566,257,000) after the deduction 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. 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 least 90% in principal amount of the CB has already been converted, redeemed or purchased and cancelled.

The CB is measured at fair value through profit or loss. The changes of fair value for the years are as follows:

	2006 **RMB'000**	2005 RMB'000 (Restated)
At beginning of the year	**556,400**	583,001
Change in fair value	**4,392**	56,153
Conversion to shares	**(433,195)**	(82,754)
At end of the year	**127,597**	556,400

37. Guaranteed Notes

	2006 **RMB'000**	2005 RMB'000
Guaranteed notes	**1,525,461**	1,570,729

On 5 August 2005, the Company issued guaranteed notes in the aggregate principal amount of US$200,000,000 (equivalent to approximately RMB1,614,240,000) 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.

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 after adjusted for transaction cost.

38. Deferred Taxation

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Valuation of properties RMB'000	**Intangible assets** RMB'000 (restated)	**Total** RMB'000 (restated)
At 1 January 2005	9,731	–	9,731
Acquisition of subsidiaries	–	13,556	13,556
Credit to equity	(1,333)	–	(1,333)
Credit to income statement	–	(376)	(376)
At 1 January 2006 (restated)	8,398	13,180	21,578
Acquisition of subsidiaries	–	2,230	2,230
Acquisition of business	–	38,699	38,699
Charge to equity	2,449	–	2,449
Charge (credit) to income statement	155	(2,996)	(2,841)
At 31 December 2006	11,002	51,113	62,115

At the balance sheet date, the Group has unused tax losses of RMB317,219,000 (2005: RMB149,268,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the uncertainty of future profit streams. The unrecognised tax losses will expire in the following year ending 31 December:

	2006 **RMB'000**	2005 RMB'000
2007	**1,211**	1,211
2008	**24,450**	25,951
2009	**45,167**	46,384
2010	**75,722**	75,722
2011	**170,669**	–
	317,219	149,268

At the balance sheet date, the Group has deductible temporary differences in respect of allowance for doubtful debts of RMB39,134,000 (2005: RMB15,314,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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.

39. Share Option Scheme *(continued)*

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.

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 1.1.2006	Granted during the year	Exercised during the year	Number of options outstanding at 31.12.2006
Directors	14.2.2003	15.2.2005 - 14.2.2013	HK$2.265	1,700,000	–	–	1,700,000
	15.3.2006	16.9.2006 - 15.3.2016	HK$6.65	–	19,750,000	–	19,750,000
	15.3.2006	16.3.2008 - 15.3.2016	HK$6.65	–	19,750,000	–	19,750,000
Employees	15.3.2006	16.9.2006 - 15.3.2016	HK$6.65	–	9,100,000	–	9,100,000
	15.3.2006	16.3.2008 - 15.3.2016	HK$6.65	–	9,100,000	–	9,100,000
				1,700,000	57,700,000	–	59,400,000
Exercisable at the end of the year							30,550,000

	Date of grant	Exercise period	Exercise price	Number of options outstanding at 1.1.2005	Exercised during the year	Number of options outstanding at 31.12.2005
Directors	14.2.2003	15.2.2005 - 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

39. Share Option Scheme *(continued)*

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 market prices of the Company's share at the dates of 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 2006, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 59,400,000 (2005: 1,700,000) representing 6.10% (2005: 0.19%) of the shares of the Company in issue as at that date.

In the current year, share options were granted on 15 March 2006. The closing price of the Company's shares immediately before the date of grant of was HK$6.2. The fair values of the options determined at the date of grant using the Binomial model were HK$1.4 per share option.

The inputs used to calculate the fair values of share options at the date of grant are that the share price and exercise price are both HK$6.65. The expected life of options is 3 years. The expectation of early exercises has been incorporated into the Binomial model. The volatility is 33%. The expected dividend yield is 1.5% and the risk free rate is 4.8%.

The vesting and exercisable period regarding these options are as follows:

No. of option granted	Vesting period	Exercisable period
28,850,000	15.3.2006 to 15.9.2006	16.9.2006 to 15.3.2016
28,850,000	15.3.2006 to 15.3.2008	16.3.2008 to 15.3.2016

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

50% of the option are exercisable from the expiry of 6 months from the date of grant of option and the remaining 50% are exercisable from 24 months from the date of grant up to 10 years from the date of grant.

The Group recognised the total expense of RMB57,370,000 for the year ended 31 December 2006 in relation to share options granted by the Company.

In the year ended 31 December 2005, 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.

40. Acquisition of Subsidiaries

(a) Acquisition during the year ended 31 December 2006

On 31 October 2006, the Group acquired 100% of the registered capital of 日照新奧實業有限公司 for cash consideration of RMB7,483,000. This transaction has been accounting for using the purchase method of accounting.

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

	Carrying amount before combination RMB'000	Fair value adjustment RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	3,003	–	3,003
Prepaid lease payments	579	–	579
Intangible assets:			
– exclusive rights of operation	–	7,370	7,370
– customer base	–	320	320
Interests in associates (note)	12,298	–	12,298
Inventories	685	–	685
Trade and other receivables	83	–	83
Bank balances and cash	3,720	–	3,720
Trade and other payables	(12,338)	–	(12,338)
Loan	(1,000)	–	(1,000)
Deferred taxation	–	(2,230)	(2,230)
	7,030	5,460	12,490
Discount on acquisition			(5,007)
Total consideration			7,483
Net cash outflow arising from acquisition:			
Cash consideration paid			(7,483)
Bank balances and cash			3,720
			(3,763)

Note: The associates are the Group's non-wholly owned subsidiaries at the date of acquisition.

日照新奧實業有限公司 contributed RMB1,466,000 revenue and loss of RMB1,105,000 to the Group's profit for the year between the date of acquisition and the balance sheet date.

If the acquisition of 日照新奧實業有限公司 had been completed on 1 January 2006, total group revenue for the year ended 31 December 2006 would have been RMB3,400,966,000 and profit for the year ended 31 December 2006 would have been RMB482,847,000. 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 2006, nor is it intended to be a projection of future results.

40. Acquisition of Subsidiaries *(continued)*

(b) Acquisitions during the year ended 31 December 2005

As mentioned in note 18, the Group recognised adjustments to the provisional fair values of assets and liabilities acquired during the year ended 31 December 2005 as a result of completing the initial accounting during the year. The fair values of assets and liabilities acquired after the completion of the initial accounting are presented below, where appropriate.

(i) On 1 January 2005, the Group acquired 100% of the registered capital of 貴港新奧燃氣有限公司 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 貴港新奧燃氣有限公司 is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

40. Acquisition of Subsidiaries *(continued)*

(b) Acquisitions during the year ended 31 December 2005 *(continued)*

(ii) On 30 June 2005, the Group acquired 85% of the registered capital of 長沙星沙新奧燃氣有限公司 for cash consideration of RMB25,000,000 (of which RMB5,000,000 was unpaid as at 31 December 2005). This transaction has been accounted for using the purchase method of accounting.

The net assets acquired in the transaction and the discount on acquisition arising are as follows:

	Carrying amounts before combination and provisional fair values as previously stated RMB'000	Prior year adjustments upon completion of initial accounting RMB'000	Adjusted fair values RMB'000
Net assets acquired:			
Property, plant and equipment	9,898	–	9,898
Prepaid lease payments	2,700	–	2,700
Intangible assets			
– exclusive rights of operation	–	41,000	41,000
– customer base	–	80	80
Inventories	86	–	86
Trade and other receivables	600	–	600
Bank balances and cash	2,142	–	2,142
Trade and other payables	(693)	–	(693)
Taxation payable	(23)	–	(23)
Deferred taxation	–	(13,556)	(13,556)
	14,710	27,524	42,234
Attributable to minority shareholders	(2,207)	(4,129)	(6,336)
Goodwill (discount) on acquisition	12,497	(23,395)	(10,898)
Total consideration	25,000	–	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)

40. Acquisition of Subsidiaries *(continued)*

(b) Acquisitions during the year ended 31 December 2005 *(continued)*

(iii) On 27 December 2005, the Group acquired 95% of the registered 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 31 December 2005). This transaction has been accounted for using the purchase method of accounting.

The net assets acquired in the transaction and the goodwill arising are as follows:

	Acquiree's carrying amount before combination RMB'000	Fair value adjustment RMB'000	Provisional fair value as previously stated RMB'000	Prior year adjustments upon completion of initial accouniting RMB'000	Adjusted fair values RMB'000
Net assets acquired:					
Property, plant and equipment	5,215	1,180	6,395	–	6,395
Intangible assets – customer base	–	–	–	1,900	1,900
Inventories	854	–	854	–	854
Trade and other receivables	4,454	–	4,454	–	4,454
Amounts due from customers for contract work	4,341	–	4,341	–	4,341
Bank balances and cash	38,195	–	38,195	–	38,195
Trade and other payables	(2,392)	–	(2,392)	–	(2,392)
Amounts due to customers for contract work	(14,333)	–	(14,333)	–	(14,333)
Taxation payable	(14,230)	–	(14,230)	–	(14,230)
	22,104	1,180	23,284	1,900	25,184
Minority interest			(1,165)	(95)	(1,260)
Goodwill on acquisition			38,816	(1,805)	37,011
Total consideration			60,935	–	60,935
Satisfied by cash					
Paid					37,635
Unpaid					23,300
					60,935
Net cash inflow 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.

41. Acquisition of Businesses

(a) During the year, the minority shareholder of an existing subsidiary in the PRC, namely 湛江新奧燃氣有限公司, which the Group owns 90% of the registered capital, injected the assets and liabilities in relation to its liquefied petroleum gas ("LPG") business at nil consideration on 1 January 2006.

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

	Carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair values RMB'000
Property, plant and equipment	92,089	–	92,089
Available-for-sale investments	6,535	–	6,535
Inventories	901	–	901
Bank balances and cash	1,975	–	1,975
Trade and other receivables	37,229	–	37,229
Trade and other payables	(61,819)	–	(61,819)
Bank and other loans - due after one year	(127,151)	8,219	(118,932)
	(50,241)	8,219	(42,022)
Minority interest			5,042
Goodwill on acquisition			36,980
Total consideration			–
Cash inflow arising from the transaction:			
Bank balances and cash acquired			1,975

The goodwill arising on the acquisition of 湛江新奧燃氣有限公司 is attributable to its anticipated profitability upon turning LPG business into natural gas business and the additional coverage of gas business in Zhanjiang area in the PRC. Since the natural gas business in the PRC has barrier of entry, the directors considered that such barrier of entry allows 湛江新奧燃氣有限公司 to exercise monopolistic power in the market and able to obtain a steady future cash inflow.

The business acquired contributed to the Group's revenue of RMB90,370,000 and contributed to the Group's profit for the year of RMB3,328,000 for the period between the date of acquisition and the balance sheet date.

41. Acquisition of Businesses *(continued)*

(b) During the year, the registered capital of 石家莊新奧燃氣有限公司, an existing subsidiary of the Company, increased from RMB130,000,000 to RMB300,000,000. The additional capital of RMB170,000,000 was contributed by the Group and the minority shareholder of RMB89,000,000 and RMB81,000,000 respectively. The Group injected capital into the subsidiary in cash and the minority shareholder injected capital into the subsidiary in the form of cash and non-cash assets and liabilities in relation to its coal gas business. After the additional capital contribution, the interest in the subsidiary held by the Group decreased from 70% to 60%.

The fair values of assets and liabilities contributed by the minority shareholder for the additional capital injection of RMB81,000,000 during the year and the gain on dilution of interest in the subsidiary from 70% to 60% by the Group are as follows:

	Carrying amount before combination RMB'000	**Fair value adjustments** RMB'000	**Fair value** RMB'000
Property, plant and equipment	246,164	–	246,164
Intangible assets			
– exclusive rights of operation	20,107	95,893	116,000
– customer base	–	26,400	26,400
Available-for-sale investments	259	–	259
Inventories	52,714	–	52,714
Trade and other receivables	42,139	–	42,139
Bank balances and cash	20,910	–	20,910
Trade and other payables	(236,346)	–	(236,346)
Bank loan	(120,000)	–	(120,000)
Deferred taxation	–	(38,448)	(38,448)
	25,947	83,845	109,792
Minority interest			(43,917)
Gain on dilution			(15,144)
Total consideration			50,731
Cash inflow arising from the transaction:			
Bank balances and cash acquired			20,910

The business acquired contributed to the Group's revenue of RMB270,122,000 and contributed to the Group's profit for the year of RMB23,732,000 for the period between the date of injection to the balance sheet date.

41. Acquisition of Businesses *(continued)*

(c) In September 2006, an existing subsidiary, 泉州市燃氣有限公司, acquired business of piped gas operation in Quanzhou City from a third party. The provisional fair values of assets and liabilities acquired are as follows:

	Carrying amount before combination RMB'000	**Fair value adjustments** RMB'000	**Fair value** RMB'000
Property, plant and equipment	12,439	–	12,439
Inventories	701	–	701
Intangible assets – customer base	–	430	430
Deferred taxation	–	(129)	(129)
	13,140	301	13,441
Goodwill on acquisition			9,848
Total consideration			23,289
Cash outflow arising from the transaction:			
Cash consideration paid			23,289

The business acquired contributed to the Group's revenue of RMB7,959,000 and contributed to the Group's loss of RMB7,028,000 for the period between the date of acquisition and the balance sheet date.

(d) In September 2006, an existing subsidiary, 晉江新奧燃氣有限公司, acquired businesses of piped gas operation in Quanzhou city from third parties. The provisional fair values of assets and liabilities acquired are as follows:

	Carrying amount before combination RMB'000	**Fair value adjustments** RMB'000	**Fair value** RMB'000
Property, plant and equipment	30,109	–	30,109
Intangible assets-customer base	–	300	300
Inventories	1,444	–	1,444
Trade and other receivables	1,909	–	1,909
Deferred taxation	–	(99)	(99)
	33,462	201	33,663
Goodwill on acquisition			3,844
Total consideration			37,507
Cash outflow arising from the transaction:			
Cash consideration paid			37,507

The business acquired contributed to the Group's revenue of RMB7,295,000 and contributed to the Group's profit of RMB1,985,000 for the period between the date of acquisition and the balance sheet date.

41. Acquisition of Businesses *(continued)*

(e) In November 2006, an existing subsidiary, 桂林新奧燃氣有限公司, acquired assets and liabilities in relation to the business of piped gas operation in Guilin City from a third party. The provisional fair values of assets and liabilities acquired are as follows:

	Carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Property, plant and equipment	1,347	–	1,347
Intangible assets – customer base	–	70	70
Trade and other receivables	72	–	72
Inventories	69	–	69
Bank balance and cash	60	–	60
Trade and other payable	(5)	–	(5)
Deferred taxation	–	(23)	(23)
	1,543	47	1,590
Goodwill on acquisition			610
Total consideration			2,200
Cash outflow arising from the transaction			
Cash consideration paid			(2,200)
Bank balance and cash acquired			60
			(2,140)

The revenue and results of the business acquired for the period between the date of acquisition and the balance sheet date are not presented as the financial records of the acquired businesses is not kept seperately from the books of 桂林新奧燃氣有限公司.

41. Acquisition of Businesses *(continued)*

(f) During the year ended 31 December 2005, 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 of which the Group owns 100% and 80% of the registered capital, respectively. These transactions have been accounted for using the purchase method of accounting.

As mentioned in note 18, the Group recognised adjustments to the provisional fair values of assets and liabilities injected into 台州新奧燃氣有限公司 as a result of completing the initial accounting during the year. The net assets acquired in the transaction and the goodwill arising are as follows:

	Carrying value before combination and provisional fair values as previously stated	Prior year adjustments upon completion of initial accounting	Adjusted fair values
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant and equipment	19,793	–	19,793
Intangible assets - customer base	–	810	810
Inventories	1,867	–	1,867
Trade and other receivables	3,184	–	3,184
Trade and other payables	(14,296)	–	(14,296)
Bank loans	(2,345)	–	(2,345)
Payable to a minority shareholder	(10,557)	–	(10,557)
Bank balances	52,078	–	52,078
	49,724	810	50,534
Minority interest	(7,213)	(162)	(7,375)
Goodwill on acquisition (note 18)	9,567	(648)	8,919
Total consideration	52,078	–	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.

42. Other Major Non-cash Transaction

During the year, the Group established a subsidiary, namely 洛陽新奧華油燃氣有限公司, which the Group owns 70% of the registered capital. The minority shareholder injected property, plant and equipment of RMB38,400,000 on 26 July 2006 as capital contribution.

43. Capital Commitments

	2006 RMB'000	2005 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment – contracted for but not provided for	**32,716**	15,227
Group's share of capital commitments contracted but not provide for:		
– in joint ventures	**–**	161,390
– in an associate	**919**	–
	919	161,390
	33,635	176,617

44. 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:

	2006 RMB'000	2005 RMB'000
Within one year	**4,579**	4,532
In the second to fifth year inclusive	**7,247**	4,882
Over five years	**3,432**	1,374
	15,258	10,788

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 RMB70,885,000 (2005: RMB71,602,000) are held for rental purposes. The properties are expected to generate rental yields of 4.7% (2005: 5.8%) 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:

	2006 RMB'000	2005 RMB'000
Within one year	**2,894**	3,131
In the second year	**1,817**	2,310
	4,711	5,441

45. 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:

	2006 RMB'000	2005 RMB'000
Carrying amount of:		
Property, plant and equipment	**71,633**	60,605
Investment properties	**47,980**	27,604
Bank deposits	**–**	162,963
	119,613	251,172

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.

46. Related Party Transactions

Nature of transaction	2006 RMB'000	2005 RMB'000
Provision of gas connection service to		
– companies controlled by Mr. Wang	**2,475**	6,395
– a minority shareholder	**–**	18
Sales of gas to		
– companies controlled by Mr. Wang	**1,885**	5,960
– a minority shareholder	**8**	26
– an associate	**5,239**	–
– a joint controlled entity	**18,718**	9,313
Purchase of gas from		
– jointly controlled entities	**52,243**	22,815
– an associate	**5,919**	–
Sales of materials to		
– companies controlled by Mr. Wang	–	148
– jointly controlled entities	**9,250**	10,590
– associates (ii)	**190**	88
Lease of premises to companies controlled by Mr. Wang	**2,309**	2,121
Deposit paid to minority shareholder for equity interest in joint venture	**18,225**	–
Lease of premises from minority shareholders	**182**	170
Lease of assets from a minority shareholder	**–**	300
Provision for management services by companies controlled by Mr. Wang	**1,795**	1,254
Provision for gas transportation services to		
– jointly controlled entities	**25,742**	–
– an associate	**6,594**	–

46. Related Party Transactions *(continued)*

Nature of transaction	2006 RMB'000	2005 RMB'000
Purchase of compressed natural gas truck trailers, pressure regulating and gas equipment by companies controlled by Mr. Wang	**129,948**	109,873
Purchase of gas appliances from companies controlled by Mr. Wang	–	2,747
Deposit for purchase of compressed natural gas track trailers, pressure regulating and gas equipment by companies controlled by Mr. Wang	**7,530**	8,699
Purchase of land and buildings from companies controlled by Mr. Wang	–	32,032
Deposits of purchasing services from a company controlled by Mr. Wang	–	2,119
Deposits for acquisition of land and building from a company controlled by Mr. Wang	–	13,775
Provision of decoration services from a company controlled by Mr. Wang	**3,240**	999
Purchase of materials from		
– a jointly controlled entity	–	1,277
– a minotiry shareholder	**3,497**	3,497
Donation to related party (i)	**4,200**	500
Loan interest from		
– jointly controlled entities	**1,912**	106
– an associate	–	48
Provision of construction services to a jointly controlled entity	**2,721**	1,165
Provision of services from a company controlled by Mr. Wang	**843**	–
Purchase of gas trucks vehicles from a jointly controlled entity	–	8,479
Purchase of assets from a minority shareholder	–	1,383
Payments on behalf of minority shareholders (ii)	**730**	2,400
Expenses paid by a jointly controlled entity	**49**	–
Provision of construction service from a minority shareholder	**978**	742
Disposal of assets to an associate	**14,865**	–
Loan advance from		
– associates (iii)	–	77,400
– jointly controlled entities(iii)	–	2,752
Loan advance to		
– an associate (iv)	**26,000**	61,000
– jointly controlled entities (v)	**69,000**	19,790
– a minority shareholder(iii)	**14,935**	–

46. Related Party Transactions *(continued)*

Notes:

(i) Donation is made to a non-profit making organisation, 新奧慈善基金會, of which Mr. Wang is the legal representative.

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

(iii) The loan advances are unsecured, interest free and repayable on demand.

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

(v) The loan advance is unsecured, carried interest at prevailing market rate and repayable in 2009.

Compensation of key management personnel

In addition, 39,500,000 share options were granted to the directors of the Company during the year. Details of the share options are disclosed in note 39. Share-based payment expense in relation to the options granted to the directors of RMB39,274,000 (2005: nil) was recognised in the consolidated income statement during the year.

The other remuneration of directors and other members of key management during the year was disclosed in note 11.

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:

2006

	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	Consolidated RMB'000
Revenue	1,354,892	1,623,510	282,606	135,528	–	3,396,536
Result	1,004,061	300,977	10,769	25,067	–	1,340,874
Unallocated other income						184,410
Unallocated corporate expenses						(859,039)
						666,245
Share of results of associates	1,492	(4,558)	–	9,891	(2,140)	4,685
Share of results of jointly controlled entities	65,463	663	–	–	–	66,126
Finance costs						(203,424)
Profit before taxation						533,632
Taxation						(49,772)
Profit for the year						483,860

47. Segment Information *(continued)*

(a) Business segments *(continued)*

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	Consolidated RMB'000 (Restated)
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						126,732
Unallocated corporate expenses						(596,959)
						451,851
Share of results of associates	896	240	–	–	–	1,136
Share of results of jointly controlled entities	20,648	288	–	–	–	20,936
Finance costs						(73,383)
Profit before taxation						400,540
Taxation						(38,343)
Profit for the year						362,197

47. Segment Information *(continued)*

(a) Business segments *(continued)*

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

2006

	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	Consolidated RMB'000
Assets:						
Segment assets	803,607	215,072	87,737	106,932	4,395,764	5,609,112
Interests in associates	18,148	45,325	–	164,075	112,625	340,173
Interests in jointly controlled entities	254,450	41,080	–	–	–	295,530
Unallocated corporate assets						3,790,191
Consolidated total assets						10,035,006
Liabilities:						
Segment liabilities	903,813	330,062	8,229	18,287	54,470	1,314,861
Unallocated corporate liabilities						4,851,717
Consolidated total liabilities						6,166,578

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	Consolidated (Restated) RMB'000
Assets:						
Segment assets	444,978	150,479	78,966	54,588	2,827,370	3,556,381
Interests in associates	16,655	49,884	–	–	10,032	76,571
Interests in jointly controlled entities	195,014	40,418	–	–	–	235,432
Unallocated corporate assets						3,686,320
Consolidated total assets						7,554,704
Liabilities:						
Segment liabilities	438,978	116,737	3,122	20,042	15,371	594,250
Unallocated corporate liabilities						4,201,305
Consolidated total liabilities						4,795,555

47. Segment Information *(continued)*

(a) Business segments *(continued)*

OTHER INFORMATION

	Capital additions		Depreciation	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Gas connection	**100,949**	26,178	**9,950**	3,157
Distributions of bottled liquefied petroleum gas	**34,331**	41,049	**4,317**	3,822
Sales of gas appliances	**2,420**	1,829	**1,379**	1,027
Unallocated segment	**1,160,884**	889,590	**130,704**	76,103
	1,298,584	958,646	**146,350**	84,109

(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.

	2006	2005
	RMB'000	RMB'000
Retirement benefit contribution made during the year	**25,691**	16,522

49. Post Balance Sheet Events

Subsequent to the balance sheet date 31 December 2006, 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
東莞市塘廈新奧燃氣有限公司 ("Dongguan City Tangxia Xinao Gas Company Limited")*	RMB392,000	49%	Investment in gas pipeline infrastructure and sales of piped gas
寧波新奧燃氣有限公司 ("Ningbo Xinao Gas Company Limited")	RMB2,450,000	49%	Investment in gas pipeline infrastructure and sales of piped gas
萊陽新奧車用燃氣有限公司 ("Laiyang Xinao Vehicle Gas Company Limited")*	US$2,000,000	100%	Construction and operation of vehicle gas refuelling stations
蚌埠市高樂登液化汽有限責任公司 ("Bengbu City Gaoledeng LPG Company Limited")*	RMB812,000	70%	Sales of LPG

Most of the 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.

In November 2006, the Group has entered into an acquisition agreement with a minority shareholder of 淮安新奧燃氣有限公司 to acquire the remaining 20% interest of 淮安新奧燃氣有限公司 with a total consideration of RMB27,801,000. The acquisition has been completed in January 2007.

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 Company	Principal activities
北京新奧燃氣有限公司* Beijing Xinao Gas Company Limited	PRC	Registered capital US$1,195,600	95.00%	Sales of piped gas
北京新奧華鼎貿易有限公司# Beijing Xinao Huading Trading Company Limited	PRC	Registered capital US$1,800,000	100.00%	Retail of gas pipelines, related materials and equipment
北京新奧京昌燃氣有限公司* Beijing Xinao Jingchang Gas Company Limited	PRC	Registered capital RMB9,900,000	80.00%	Sales of piped gas
北京新奧京谷燃氣有限公司* Beijing Xinao Jinggu Gas Company Limited	PRC	Registered capital RMB9,900,000	90.00%	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 Company	Principal activities
蚌埠新奧燃氣有限公司* Bengbu Xinao Gas Company Limited	PRC	Registered capital RMB110,000,000	70.00%	Investment in gas pipeline infrastructure
蚌埠新奧燃氣發展有限公司* Bengbu Xinao Gas Development Company Limited	PRC	Registered capital US$600,000	70.00%	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	PRC	Registered capital US$600,000	100.00%	Investment in gas pipeline infrastructure
亳州新奧燃氣有限公司* Bozhou Xinao Gas Company Limited	PRC	Registered capital US$3,200,000	70.00%	Sales of piped gas
亳州新奧燃氣工程有限公司* Bozhou Xinao Gas Engineering Company Limited	PRC	Registered capital US$800,000	70.00%	Investment in gas pipeline infrastructure
長沙新奧燃氣有限公司* Changsha Xinao Gas Company Limited	PRC	Registered capital RMB150,000,000	55.00%	Investment in gas pipeline infrastructure and sales of piped gas
常州新奧燃氣發展有限公司* Changzhou Xinao Gas Development Company Limited	PRC	Registered capital US$600,000	60.00%	Sales of piped gas
長沙星沙新奧燃氣有限公司* Changsha Xingsha Xinao Gas Company Limited	PRC	Registered capital RMB30,000,000	46.75%	Investment in gas pipeline infrastructure and sales of piped gas
常州新奧燃氣工程有限公司* Changzhou Xinao Gas Engineering Company Limited	PRC	Registered capital US$5,000,000	60.00%	Investment in gas pipeline infrastructure
巢湖新奧燃氣有限公司# Chaohu Xinao Gas Company Limited	PRC	Registered capital US$5,784,000	100.00%	Investment in gas pipeline infrastructure
巢湖新奧燃氣發展有限公司# Chaohu Xinao Gas Development Company Limited	PRC	Registered capital US$420,000	100.00%	Sales of piped gas
巢湖新奧車用燃氣有限公司# Chaohu Xinao Vehicle Gas Company Limited	PRC	Registered capital US$540,000	100.00%	Production and sale of gas for vehicle use

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 Company	Principal activities
滁州新奧燃氣有限公司* Chuzhou Xinao Gas Company Limited	PRC	Registered capital US$7,100,000	90.00%	Sales of piped gas
滁州新奧燃氣工程有限公司* Chuzhou Xinao Gas Engineering Company Limited	PRC	Registered capital US$600,000	93.00%	Investment in gas pipeline infrastructure
鳳陽新奧燃氣有限公司# Fengyang Xinao Gas Company Limited	PRC	Registered capital US$2,000,000	100.00%	Sales of piped gas
鳳陽新奧燃氣工程有限公司# Fengyang Xinao Gas Engineering Company Limited	PRC	Registered capital US$600,000	100.00%	Investment in gas pipeline infrastructure
貴港新奧燃氣有限公司# Guigang Xinao Gas Company Limited	PRC	Registered capital US$3,500,000	100.00%	Sales of piped gas
貴港新奧燃氣工程有限公司# Guigang Xinao Gas Engineering Company Limited	PRC	Registered capital US$500,000	100.00%	Investment in gas pipeline infrastructure
桂林新奧燃氣有限公司* Guilin Xinao Gas Company Limited	PRC	Registered capital US$6,000,000	60.00%	Sales of piped gas
桂林新奧燃氣發展有限公司* Guilin Xinao Gas Development Company Limited	PRC	Registered capital US$120,000	60.00%	Investment in gas pipeline infrastructure
海安新奧燃氣有限公司# Haian Xinao Gas Company Limited*	PRC	Registered capital US$1,200,000	100.00%	Sales of piped gas
海寧新奧燃氣有限公司* Haining Xinao Gas Company Limited	PRC	Registered capital US$5,000,000	80.00%	Investment in gas pipeline infrastructure
海寧新奧燃氣發展有限公司* Haining Xinao Gas Development Company Limited	PRC	Registered capital US$800,000	86.00%	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	PRC	Registered capital RMB10,000,000	95.00%	Investment in gas pipeline infrastructure and sales of piped gas
惠安縣燃氣有限公司* Huian County Gas Company Limited	PRC	Registered capital RMB20,000,000	60.00%	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 Company	Principal activities
淮安新奧燃氣有限公司* Huaian Xinao Gas Company Limited	PRC	Registered capital RMB30,000,000	80.00%	Investment in gas pipeline infrastructure and sales of piped gas and bottled liquefied petroleum gas
湖南銀通科技有限責任公司* Hunan Yintong Technology Company Limited	PRC	Registered capital RMB9,803,900	51.00%	Research and development, production and sale of IC card metre and software system
葫蘆島新奧燃氣有限公司* Huludao Xinao Gas Company Limited	PRC	Registered capital US$1,207,700	90.00%	Sales of piped gas
葫蘆島新奧燃氣發展有限公司* Huludao Xinao Gas Development Company Limited	PRC	Registered capital US$1,200,000	90.00%	Investment in gas pipeline infrastructure
金華新奧燃氣有限公司# Jinhua Xinao Gas Company Limited	PRC	Registered capital US$5,000,000	100.00%	Investment in gas pipeline infrastructure
金華新奧燃氣發展有限公司# Jinhua Xinao Gas Development Company Limited	PRC	Registered capital US$600,000	100.00%	Sales of piped gas
晉江新奧燃氣有限公司* Jinjiang Xinao Gas Company Limited	PRC	Registered capital RMB60,000,000	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
開封新奧燃氣有限公司* Kaifeng Xinao Gas Company Limited	PRC	Registered capital US$10,000,000	90.00%	Sales of piped gas
開封新奧燃氣工程有限公司* Kaifeng Xinao Gas Engineering Company Limited	PRC	Registered capital US$800,000	90.00%	Investment in gas pipeline infrastructure
來安新奧燃氣有限公司* Laian Xinao Gas Company Limited	PRC	Registered capital US$2,000,000	95.00%	Sales of piped gas
來安新奧燃氣工程有限公司* Laian Xinao Gas Engineering Company Limited	PRC	Registered capital US$600,000	95.00%	Investment in gas pipeline infrastructure
萊陽新奧燃氣有限公司* Laiyang Xinao Gas Company Limited	PRC	Registered capital US$5,000,000	95.00%	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 Company	Principal activities
萊陽新奧燃氣工程有限公司* Laiyang Xinao Gas Project Company Limited	PRC	Registered capital US$800,000	96.50%	Investment in gas pipeline infrastructure
廊坊新奧燃氣有限公司# Langfang Xinao Gas Company Limited	PRC	Registered capital US$9,333,900	100.00%	Sales of piped gas
廊坊新奧燃氣設備有限公司# Langfang Xinao Gas Equipment Company Limited	PRC	Registered capital US$360,000	100.00%	Manufacture of stored value card gas metre
廊坊新奧軟件科技有限公司# Langfang Xinao Software Technology Company Limited	PRC	Registered capital US$120,000	100.00%	Development, production and sale of IC card metre and software system
蘭溪新奧燃氣有限公司* Lanxi Xinao Gas Company Limited	PRC	Registered capital US$1,500,000	80.00%	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	PRC	Registered capital RMB49,512,100	70.00%	Sales of piped gas
連雲港新奧燃氣工程有限公司* Lianyungang Xinao Gas Development Company Limited	PRC	Registered capital RMB10,000,000	70.00%	Investment in gas pipeline infrastructure
聊城新奧燃氣有限公司* Liaocheng Xinao Gas Company Limited	PRC	Registered capital US$1,933,200	90.00%	Sales of piped gas
聊城新奧燃氣工程有限公司* Liaocheng Xinao Gas Engineering Company Limited	PRC	Registered capital US$1,200,000	93.00%	Investment in gas pipeline infrastructure
六安新奧燃氣有限公司# Luan Xinao Gas Company Limited	PRC	Registered capital RMB20,000,000	100.00%	Sales of piped gas
六安新奧燃氣工程有限公司# Luan Xinao Gas Project Company Limited	PRC	Registered capital US$800,000	100.00%	Investment in gas pipeline infrastructure
洛陽新奧華油燃氣有限公司* Luoyang Xinao Huayou Gas Company Limited	PRC	Registered capital RMB160,000,000	70%	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 Company	Principal activities
青島新奧燃氣有限公司* Qingdao Xinao Gas Company Limited	PRC	Registered capital RMB20,000,000	90.00%	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	PRC	Registered capital US$600,000	90.00%	Investment in gas pipeline infrastructure
青島新奧膠城燃氣有限公司* Qingdao Xinao Jiaocheng Gas Company Limited	PRC	Registered capital US$5,000,000	90.00%	Sales of piped gas
青島新奧膠城燃氣工程有限公司# Qingdao Xinao Jiaocheng Gas Engineering Company Limited	PRC	Registered capital HK$4,500,000	100.00%	Investment in gas pipeline infrastructure
青島新奧膠南燃氣有限公司# Qingdao Xinao Jiaonan Gas Company Limited	PRC	Registered capital US$4,400,000	100.00%	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	PRC	Registered capital US$1,000,000	100.00%	Investment in gas pipeline infrastructure
青島新奧新城燃氣有限公司* Qingdao Xinao Xincheng Gas Company Limited	PRC	Registered capital US$1,610,000	90.00%	Sales of piped gas
青島新奧新城燃氣工程有限公司* Qingdao Xinao Xincheng Gas Engineering Company Limited	PRC	Registered capital US$800,000	93.00%	Investment in gas pipeline infrastructure
泉州市燃氣有限公司* Quanzhou City Gas Company Limited	PRC	Registered capital RMB450,000,000	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
衢州新奧燃氣有限公司* Quzhou Xinao Gas Company Limited	PRC	Registered capital RMB50,000,000	90.00%	Investment in gas pipeline infrastructure
衢州新奧燃氣發展有限公司* Quzhou Xinao Gas Development Company Limited	PRC	Registered capital US$600,000	90.00%	Sales of piped gas
南安市燃氣有限公司* Nanan City Gas Company Limited	PRC	Registered capital RMB30,000,000	42.00%	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 Company	Principal activities
南通新奧燃氣工程有限公司# Nantong Xinao Gas Technology Company Limited	PRC	Registered capital US$800,000	100.00%	Investment in gas pipeline infrastructure
南通新奧車用燃氣發展有限公司# Nantong Xinao Vehicle Gas Development Company Limited	PRC	Registered capital US$5,000,000	100.00%	Construction and operation of vehicle gas refuelling stations
日照新奧燃氣有限公司* Rizhao Xinao Gas Company Limited	PRC	Registered capital US$5,600,000	80.00%	Sales of piped gas
日照新奧燃氣工程有限公司* Rizhao Xinao Gas Engineering Company Limited	PRC	Registered capital US$1,210,000	86.00%	Investment in gas pipeline infrastructure
日照新奧實業有限公司# Rizhao Xinao Industry Company Limited	PRC	Registered capital RMB5,000,000	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
商丘新奧燃氣有限公司# Shangqiu Xinao Gas Company Limited	PRC	Registered capital US$7,000,000	100.00%	Sales of piped gas
商丘新奧燃氣工程有限公司# Shangqiu Xinao Gas Engineering Company Limited	PRC	Registered capital US$3,000,000	100.00%	Investment in gas pipeline infrastructure
汕頭新奧燃氣有限公司* Shantou Xinao Gas Company Limited	PRC	Registered capital RMB34,580,000	51.00%	Sales of piped gas
石家莊新奧燃氣有限公司* Shijiazhuang Xinao Gas Company Limited	PRC	Registered capital RMB300,000,000	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奧車用燃氣有限公司* Shijiazhuang Xinao Vehicle Gas Company Limited	PRC	Registered capital RMB1,000,000	39.00%	Production and sale of gas for vehicle use
石獅新奧燃氣有限公司* Shishi Xinao Gas Company Limited	PRC	Registered capital RMB10,000,000	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
泰興新奧燃氣有限公司* Taixing Xinao Gas Company Limited	PRC	Registered capital US$1,200,000	90.00%	Sales of piped gas
泰興新奧燃氣工程有限公司* Taixing Xinao Gas Engineering Company Limited	PRC	Registered capital US$800,000	90.00%	Investment in gas pipeline infrastructure

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 Company	Principal activities
台州新奧燃氣有限公司* Taizhou Xinao Gas Company Limited	PRC	Registered capital US$5,000,000	80.00%	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	PRC	Registered capital US$3,000,000	80.00%	Sales of piped gas
通遼新奧燃氣發展有限公司* Tongliao Xinao Gas Development Company Limited	PRC	Registered capital US$600,000	80.00%	Investment in gas pipeline infrastructure
溫州新奧燃氣有限公司# Wenzhou Xinao Gas Company Limited	PRC	Registered capital US$3,100,000	100.00%	Sales of piped gas
溫州新奧燃氣工程有限公司# Wenzhou Xinao Gas Engineering Company Limited	PRC	Registered capital US$700,000	100.00%	Investment in gas pipeline infrastructure
溫州龍灣新奧燃氣有限公司# Wenzhou Longwan Xinao Gas Company Limited	PRC	Registered capital US$9,500,000	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
湘潭新奧燃氣有限公司* Xiangtan Xinao Gas Company Limited	PRC	Registered capital RMB100,000,000	85.00%	Investment in gas pipeline infrastructure and sales of piped gas
新奧(中國)燃氣投資有限公司# Xinao (China) Gas Investment Company Limited	PRC	Registered capital US$231,778,124	100.00%	Investment holding
新奧能源物流有限公司# Xinao Energy Logistics Company Limited	PRC	Registered capital US$12,400,000	100.00%	Transportation of oil products and gas
新奧能源銷售有限公司# Xinao Energy Sales Company Limited	PRC	Registered capital US$6,200,000	100.00%	Wholesale and retail of LNG & CNG, piped gas facilities, gas equipment, appliances and others
新奧燃氣發展有限公司# Xinao Gas Development Company Limited	PRC	Registered capital US$6,000,000	100.00%	Sourcing of compressed pipeline gas and 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 Company	Principal activities
新奧燃氣工程有限公司# Xinao Gas Engineering Company Limited	PRC	Registered capital US$7,000,000	100.00%	Investment in gas pipeline infrastructure
Xinao Gas Investment Group Limited#	British Virgin Islands	Share capital US$1,000	100.00%	Investment holding
新奧(廊坊)燃氣技術研究發展有限公司# Xinao Gas Langfang Technology Research and Development Company Limited	PRC	Registered capital US$1,400,000	100.00%	Technology research and development, product development
興化新奧燃氣有限公司# Xinghua Xinao Gas Company Limited	PRC	Registered capital US$1,200,000	100.00%	Sales of piped gas
興化新奧燃氣工程有限公司# Xinghua Xinao Gas Engineering Company Limited	PRC	Registered capital US$600,000	100.00%	Investment in gas pipeline infrastructure
新鄉新奧燃氣有限公司* Xinxiang Xinao Gas Company Limited	PRC	Registered capital US$10,000,000	95.00%	Sales of piped gas and bottled liquefied petroleum gas
新鄉新奧燃氣工程有限公司* Xinxiang Xinao Gas Engineering Company Limited	PRC	Registered capital US$1,200,000	96.50%	Investment in gas pipeline infrastructure
煙台新奧實業有限公司* Yantai Xinao Industry Company Limited	PRC	Registered capital RMB55,000,000	60.00%	CNG vehicle refuelling station, pipeline construction, installation of gas equipment, production and sale of gas equipment and others
煙台牟平新奧天然氣加氣有限公司* Yantai Muping Xinao Gas Refueling Limited	PRC	Registered capital RMB7,000,000	58.00%	Construction and operation of vehicle gas refuelling stations
鹽城新奧燃氣有限公司* Yancheng Xinao Gas Company Limited	PRC	Registered capital RMB50,000,000	70.00%	Investment in gas pipeline infrastructure
鹽城新奧燃氣發展有限公司* Yancheng Xinao Gas Development Company Limited	PRC	Registered capital US$600,000	79.00%	Sales of piped gas
鹽城新城新奧燃氣有限公司# Yancheng Xincheng Xinao Gas Company Limited	PRC	Registered capital HK$20,000,000	100.00%	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 Company	Principal activities
揚州新奧燃氣有限公司# Yangzhou Xinao Gas Company Limited	PRC	Registered capital US$1,300,000	100.00%	Sales of piped gas
揚州新奧燃氣工程有限公司# Yangzhou Xinao Gas Engineering Company Limited	PRC	Registered capital US$800,000	100.00%	Investment in gas pipeline infrastructure
煙台新奧燃氣有限公司# Yantai Xinao Gas Company Limited	PRC	Registered capital US$2,100,000	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
永康新奧燃氣有限公司# Yongkang Xinao Gas Company Limited	PRC	Registered capital US$8,000,000	100.00%	Sales of piped gas
永康新奧燃氣工程有限公司# Yongkang Xinao Gas Engineering Company Limited	PRC	Registered capital US$800,000	100.00%	Investment in gas pipeline infrastructure
湛江新奧燃氣有限公司* Zhanjiang Xinao Gas Company Limited	PRC	Registered capital RMB85,000,000	90.00%	Investment in gas pipeline infrastructure and sales of piped gas
肇慶市高新區新奧燃氣有限公司* Zhaoqing City High-New Zone Xinao Gas Company Limited	PRC	Registered capital US$2,100,000	95.00%	Investment in gas pipeline infrastructure and sales of piped gas
鎮江新奧車用燃氣發展有限公司# Zhenjiang Xinao Vehicle Gas Development Company Limited	PRC	Registered capital US$5,000,000	100.00%	Sale of gas for vehicle use
諸城新奧燃氣有限公司# Zhucheng Xinao Gas Company Limited	PRC	Registered capital US$3,000,000	100.00%	Sales 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	PRC	Registered capital US$800,000	100.00%	Investment in gas pipeline infrastructure
株洲新奧燃氣有限公司* Zhuzhou Xinao Gas Limited	PRC	Registered capital RMB135,000,000	55.00%	Investment in gas pipeline infrastructure and sales of piped gas
鄒平新奧燃氣有限公司# Zouping Xinao Gas Company Limited	PRC	Registered capital US$1,200,000	100.00%	Sales of piped gas

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 of the above 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 2006 or at any time during the year.

* *Sino-foreign equity joint venture*

\# *Wholly foreign owned enterprise*

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