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ENN 新奥

XinAo Gas Holdings Limited

(Stock code: 2688)

annual report 2009

go further

ENN

Energy & Innovation
Ennovation

We treat the harmonic development between energy and environment as our prime mission and strive to promote the exploration and utilisation of energy with the use of innovative ideas and methods, seeking for clean, highly efficient and truly creative solutions for energy issues.

go higher

go closer

go greener

Operational Locations

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

	City	Connectable population
INNER MONGOLIA (1 project)		
44	Tongliao	436,000
BEIJING MUNICIPALITY (3 projects)		
3	Miyun	158,000
6	Pinggu	120,000
8	Changping	105,000
HEBEI (4 projects)		
1	Langfang	447,000
29	Shijiazhuang	2,313,000
48	Luquan	86,000
74	Luanxian	80,000
HENAN (6 projects)		
24	Xinxiang	992,000
40	Kaifeng	835,000
49	Shangqiu	1,466,000
55	Luoyang	1,474,000
68	Xinan	102,000
73	Yichuan	100,000
ANHUI (9 projects)		
14	Bengbu	914,000
21	Chuzhou	249,000
22	Lu'an	324,000
26	Bozhou	215,000
30	Chaohu	210,000
58	Fengyang	103,000
63	Laian	82,000
65	Qianjiao	106,000
66	Guzhen	100,000
HUNAN (3 projects)		
36	Xiangtan	720,000
39	Changsha	2,146,000
42	Zhuzhou	793,000
GUANGXI (2 projects)		
45	Gulin	735,000
51	Guigang	370,000
JIANGXI (1 project)		
75	Nanchang Sanghai	50,000
LIAONING (2 projects)		
4	Huludao	317,000
5	Xingcheng	480,000
SHANDONG (11 projects)		
2	Liaocheng	557,000
7	Huangdao	457,000
9	Zhucheng	362,000
10	Chengyang	480,000
11	Yantai Development Zone	-
12	Yantai	1,789,000
15	Zouping	188,000
17	Laiyang	239,000
23	Rizhao	302,000
41	Jiaozhou	230,000
43	Jiaonan	319,000
JIANGSU (8 projects)		
13	Gaoyou	148,000
16	Taixing	215,000
18	Yancheng	801,000
19	Huaian	1,151,000
20	Haian	189,000
26	Xinghua	175,000
32	Wujin	986,000
38	Lianyungang	709,000
ZHEJIANG (14 projects)		
27	Haining	224,000
28	Quzhou	264,000
31	Lanxi	121,000
33	Jinhua	110,000
34	Wenzhou	-
35	Longwan	321,000
46	Huzhou	217,000
52	Taizhou	583,000
53	Yongkang	219,000
57	Xiaoshan	381,000
64	Yinzhou	244,000
72	Haiyan	100,000
78	Longyou	100,000
79	Huzhou Nanxun	491,000
FUJIAN (8 projects)		
56	Quanzhou	1,017,000
59	Nanan	376,000
60	Huian	141,000
61	Shishi	112,000
62	Jinjiang	365,000
67	Dehua	100,000
70	Quangang	120,000
77	Yongchun	152,000
GUANGDONG (7 projects)		
37	Dongguan	7,551,000
47	Zhanjiang	622,000
50	Shantou	1,372,000
54	Zhaoqing Development Zone	63,000
69	Zhaoqing	500,000
71	Guangzhou (Zengcheng)	100,000
76	Sihui	411,000

Total: 43,565,000

Corporate Information

Board of Directors

Executive director

Wang Yusuo (Chiarman)
Cheung Yip Sang (Chief Executive Officer)
Zhao Jinfeng
Yu Jianchao
Cheng Chak Ngok
Liang Zhiwei
Zhai Xiaoqin

Non-executive director

Zhao Baoju
Jin Yongsheng

Independent non-executive director

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

Company Secretary

Cheng Chak Ngok, FCCA, FCPA, ACIS, ACS

Authorised Representatives

Yu Jianchao
Cheng Chak Ngok

Members of the Audit Committee

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

Members of the Remuneration Committee

Yu Jianchao
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

OUR STRATEGY

CONTINUOUSLY EXPANDING THE ENERGY DISTRIBUTION NETWORK THROUGH CUSTOMER-ORIENTED SERVICE AND THE CONCEPT AND METHODOLOGY OF ENERGY EFFICIENCY, WITH AN AIM TO BECOME AN INTERNATIONAL CLEAN ENERGY DISTRIBUTOR WHICH CREATES CUSTOMER VALUE AND AT THE SAME TIME, MAXIMISES SHAREHOLDERS' RETURNS.

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 Limited
Rooms 1712–16, 17th Floor
Hopewell Centre
183 Queen' Road East
Wanchai
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

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E-mail Address

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go further.

As at the end of 2009, we have covered 79 project cities in 14 provinces. In the future we will capture every opportunity in the fast growing clean energy market, and will strive to innovate business model, approach the international market and seek for better business opportunity and returns.

A green path

By promoting clean energy, we can enhance the development of low carbon economy, improve the living environment of human beings and enhance their living quality, thus realising the continuous development of the society and economy, and improving the environment.

Chairman's Statement

WANG Yusuo
Chairman

Still, 2010 will be a challenging year. However, at the same time, I see unlimited business opportunities ahead in the clean energy market and enormous development potentials in this industry. Our key objective in 2010 is to formulate innovative ideas and grasp the opportunity to speed up our business development, so that the Group's strategy can be fully executed.

Our opportunities

- The consistent rapid growth in China economy will stimulate the continuously growing demand in energy.
- The continuous industrialisation and urbanisation have provided opportunity for the expansion of our distribution network.
- The PRC government's plans to substantially lower the carbon emission level has brought even more opportunities for natural gas utilisation.
- The significant investment by the PRC government in developing natural gas infrastructure has further secured the source for natural gas supply.

Results of the Year

In 2009, the global financial crisis has exerted significant negative impacts on the economy. However, thanks to the employees of the Group who have showed indomitable spirit and worked as one to devote their efforts, the Group was able to fight against the crisis and continued to record substantial growth in its results during the year, maintaining the trend of encouraging performance as in previous years. The revenue and profit attributable to owners of the Company for the year reached RMB8,412,880,000 and RMB800,634,000 respectively, representing increases of 1.8% and 26.9% over last year respectively, while the earnings per share increased by 24.0% to RMB77.5 cents.

This year, the Group secured 7 new piped gas projects in Guangdong, Fujian, Hebei, Henan, Zhejiang, Hunan and Jiangxi respectively. As a result, the number of secured projects by the Group in China increased to 79, and the total connectable urban population coverage increased by 1,921,000 to 43,565,000. On the other hand, the Group continued its efforts in developing vehicle refuelling station business. During the year, 34 new vehicle refuelling stations were built and put into operation. As of the end of 2009, the number of vehicle refuelling stations operated by the Group reached 162 and the volume of gas sold in the vehicle segment over the total volume of gas sold increased further to 13.2%. The growth in vehicle gas sales volume not only reflected the potential for greater development in gas refuelling station business but also further secured the Group's future revenue from gas sales.

During the year, the Group completed piped natural gas connections to 788,281 residential households and 2,715 commercial/industrial ("C/I") customers (connected to gas appliances with total installed designed daily capacity of 3,961,090 cubic meters). As of the end of 2009, the accumulated number of residential households and C/I customers of natural gas were 4,536,753 and 13,583 (connected to gas appliances with a total installed designed daily capacity of 13,024,142 cubic meters) respectively,

Chairman's Statement

while in terms of all piped gas users, the accumulated number of residential households and C/I customers reached 4,706,663 and 14,020 (connected to gas appliances with a total installed designed daily capacity of 13,486,437 cubic meters) respectively. The sales volume of natural gas for the year grew rapidly by 19.6% as compared with last year to 2,631,502,000 cubic meters. The Group's ability to achieve such impressive results and maintain satisfactory growth under the negative impact of the worst global financial crisis ever fully demonstrated the benefits of the economies of scale, the robust business development of the Group, as well as our strong execution ability in vigorously raising the penetration rate of our existing gas projects.

Financial Position

As of the end of 2009, the Group's cash on hand was equivalent to RMB2,712,661,000 (2008: RMB1,725,358,000), and its total debts was equivalent to RMB5,884,509,000 (2008: RMB5,403,140,000). Its net gearing ratio, i.e. the ratio of net debt to equity (including minority interests), was 49.0% (2008: 67.6%). With the Group's efforts in vigorously raising the penetration rate of existing projects and expanding the business of vehicle gas refuelling stations, revenue from gas sales has become the major source of income for the Group. Such optimised revenue structure has been creating long-term and stable cash flow for the Group, and thus allowing the Group to enjoy sufficient financial resources to pursue sustainable development.

Corporate Management

During the year, the informatisation program has been carried out and promoted in full swing, leading to a significant enhancement in the operational efficiency. Meanwhile, to realise the strategies of the Group, improvements in information systems and functions of the information modules were made based on the "customers-needs-oriented and priority in operational efficiency" principle. As such, an information system for the purpose of strategic performance was built during the year, realising the real-time online integration of different categories of business figures. On the other hand, the Group has developed an online business platform exclusively for its senior management on which various categories of business figures and the corresponding analysis reports are accessible by the management at anytime. Such platform has also enabled performance review meetings to be conducted with access to real-time figures online. As a result, the benefit of high efficiency brought by informatisation has established a strong foundation to support the decisions of the Group. During the year, the Group continued to further the application of strategic performance management system in all group companies. With the use of refined management tools such as balanced scorecard, strategies of the Group were passed on from upper levels to each employee who was then required to submit action plans according to the strategy of the organisation such employee works in. Appraisals would also be done on the actual results of the work compared with the employee's own action plan. This guaranteed consistency of goals between organisation level and individual level, ensured speedy conveying and effective implementation of the Group's strategies, and also greatly enhanced the capability of staff. In light of the outstanding achievement in implementing informatisation, the Group received the honor of "Achievement in Promoting Informatisation by Major Company" together with seven renowned corporations in the "Top 500 in Informatisation 2008" organised by the National Informatisation Evaluation Center during the year. The Group has also won the award "Best Management and Application of Customers' Relations" on its own.

International Awards

In 2009, in recognition of our excellent financial performance, prominent position in the industry, well-developed business models, enormous potential for growth and distinguished corporate governance, the Company was ranked number one by the famous financial magazine The Asset as "China's Most Promising Companies 2009" for the power and utilities sector.

On the other hand, our annual report was again awarded "Gold, Annual Reports: Energy" by the Annual International Galaxy Awards. We also received the honor of "Citation for Design, The Best Annual Reports Awards" for year 2009 from the Hong Kong Management Association.

These remarkable achievements fully evidenced the timely and accurate disclosure of information with detailed contents in our annual reports, and our efficient communication with our shareholders.

In order to keep up these hard-won achievements, the management of the Group will continue to devote their best efforts to attain even more fruitful results and honors in the future.

Human Resources

As at the end of 2009, the Group had 16,856 employees (2008: 15,776 employees). Besides the increasing number of gas projects, another reason the Group increased its manpower was to meet the demand arising from normal business development.

The Group has always adhered to its principle of "people-oriented" and considered talents as the vital source of our competitiveness and an indispensable factor for our future success and sustainable development. We believe that, staff could provide satisfactory services to customers only if they are offered the opportunity of healthy development. We always regard our staff as our most valuable assets and the executors for realising the Group's strategies. Therefore, we have always attached importance to recruitment and internal training and offered learning and studying opportunities to employees as a kind of benefits and rewards. Employees are encouraged to pursue lifelong learning, and we would also formulate practical and tailor-made career development plans and create open career paths for them. By doing so, the personal growth of staff is closely associated with the growth of the organisation, which ensures an adequate talent pool for the Group's future sustainable healthy development.

In addition, through position restructuring and ability enhancement programs, the Group has established a capability-based human resources system in line with the Group's strategies which will continuously enhance the capability of staff and provide necessary support for the organisation, thereby ensuring that the targets of the Group can be achieved.

Prospects

In 2009, the global financial crisis that hit the world has affected the real economy of different sectors in China to different extents. However, by maximising the advantage of the industry, and its own strengths in business scale, operation models and good management, the Group, with collective efforts from its employees, was able to step out from the crisis and achieve sustained rapid growth for its year-end results. The Chinese government has gradually regulated the economic structure, encouraged other modes of growth and insisted on attaining development in an economic, clean and safe manner. It has also paid a great deal of efforts in establishing an resources saving and environmental friendly society. Such change in mode of development has created the most tremendous opportunities for the natural gas industry ever.

In the past decades, human has been in pursuit of economic growth at the expense of the natural environment. They were hurting the environment so hard that it has already posed a threat to the daily lives of human being. After the Kyoto Protocol entered into force in 2004, awareness on environmental protection has received general recognition from different countries in the world. This can be evidenced by the Copenhagen Conference held during the year on which the climate issue has once again become a global concern. For the purpose of encouraging sustainable harmonic development between human being and natural environment, building a low-carbon economy with low energy consumption, low pollution level and low emission rate is a way to achieve the goal in terms of scientific development as it harmonises economic growth and environmental friendliness, and is therefore being widely promoted by different countries over the world. Meanwhile, given the current position of energy resources, promoting the use of natural gas is one of the best options for building a low-carbon economy. Being known as "green energy", natural gas is a high quality fuel which is clean and highly efficient. According to measures and calculation, the volume

Chairman's Statement

of carbon dioxide released from burning of petroleum and natural gas with the same level of calorific value is 22% and 41% lower than that of coal respectively. Currently, natural gas is generally considered as one of the major forms of clean energy in the 21st century that is able to satisfy the demand for energy resources, improve the energy structure and protect the atmosphere. As such, the use of natural gas, together with other kinds of green energy such as solar energy and wind power, is becoming a popular trend for development.

During the year, following the phase-by-phase completion and commencement of operation of the western section of the West-East Pipeline II and part of the Sichuan-East Pipeline, the growing demand for natural gas has received strong support and the large excess in demand has also been greatly relieved. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline, Shaanxi-Beijing Pipeline I and II, Zhong-Wu Pipeline, Sebei-Xining-Lanzhou Pipeline, as well as two branch pipelines named Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. The western section and part of the eastern section of the West-East Pipeline II and the Sichuan-East Pipeline are expected to come into full operation in 2010, hence further strengthening the annual transportation capacity of natural gas. In addition, according to the schedule of the Chinese government, 17 natural gas pipeline projects including West-East Pipeline IV, China-Myanmar Pipeline and Shaanxi-Beijing Pipeline III will be completed and launched one by one by the end of 2015, while at the same time more and more import LNG terminals will be built along the coast. The real "network era" for the natural gas industry will begin by then. On the other hand, although the consumption of natural gas is rising rapidly given the overwhelming demand, the gas reserve and facilities for peak time usage adjustments are still very insufficient. In 2010, the Chinese government will accelerate the pace of planning and kick off the construction of numerous natural gas storage facilities according to the seasonal consumption of natural gas, so that the peak time usage adjustments during the peak season in winter will be enhanced.

Besides the increase in natural gas supply resulted from the construction of the nation-wide natural gas pipeline network, we have also adopted the strategy of diversified energy supply. The coal chemical project in Inner Mongolia invested by the Group in 2006 has been put into production as scheduled during the year and is running smoothly as expected. In addition, the other two liquefied natural gas ("LNG") projects in Jincheng, Shanxi and Yinchuan, Ningxia invested by the Group have also been launched and begun production during the year, with a daily LNG supply capacity of 900,000 cubic meters. Together with the Group's LNG projects in Beihai, Guangxi which was completed and launched earlier, the aggregate annual supply capacity of these projects will reach approximately 400 million cubic meters, thereby further improving the gas supply capability of the Group and securing more sufficient energy supply for its market development.

The global financial tsunami arose during the year has affected the economy. However, by fully utilising its good management quality, the Group was still able to strengthen its cost control and devote more resources in expanding the market. As a result, various business targets were achieved successfully or even exceeded the expectations, reflecting the Group's ability to cope with risks and generate profits.

In 2010, in light of the gradual recovery of the global economy, in particular the continuous growth in the economy of China, the Group will seize this golden opportunity for developing natural gas industry to formulate innovative ideas; further enlarge the economies of scale of the Group while maintaining a healthy cash flow; expand clean energy distribution network systematically; enhance the standard of customer services; fulfill the service and safety commitments made; optimise management quality through implementation of informatisation. Moreover, the Group will continue to build innovative business models and promote energy management projects. As of the end of 2009, the Group's various energy management projects, including polygeneration and central supply of heat, have achieved substantial progress. This not only helps the Group to satisfy customers' needs through providing different forms of clean energy, but also reduces the cost of consuming energy and

enhances the energy efficiency. Looking ahead, in 2010, the Group will continue to remain demand-oriented and improve its competence in project evaluation, solution formulation, resources integration and project operation by applying the concept and methodology of energy efficiency, thereby maximising the advantages of natural gas, solar energy, wind power and other kinds of green clean energy. As the Group helps boosting the sustainable growth of clean energy supply, the industrial value chain of the clean energy industry will be enhanced at the same time. Meanwhile, with an aim to become an international energy distributor with excellent operation, we will expand into the international market proactively yet properly and improve our competence in managing international projects. By doing so, the Group is able to make contribution to the environmental protection as well as the energy sector of not only China but also the whole world, while at the same time spare no effort to maximise the long-term benefits of our shareholders, customers, staff, society and enterprises.

WANG Yusuo

Chairman

31 March 2010

We believe

Tomorrow, kites will be flying in the blue sky, and children will be playing in crystal-clear water.

GO FURTHER
GO HIGHER
GO CLOSER
GO GREENER

go higher.

We strive to innovate business models proactively by considering the comprehensive advantages of energy utilisation from a systematic perspective, enhancing energy consumption efficiency and minimising the cost of energy consumption.

Project Operational Data

Operational data as at 31 December 2009

	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 processing stations (m^3)
1	Langfang	1993	394.6	4	410
2	Liaocheng	2000	477.4	2	100
3	Miyun	2000	197.4	3	168
4	Huludao	2000	246.1	1	30
5	Xingcheng (3)	2002	0.0	0	0
6	Pinggu	2001	133.8	1	72
7	Huangdao	2001	302.8	1	72
8	Changping	2001	134.3	1	102
9	Zhucheng	2001	109.1	0	0
10	Chengyang	2001	315.8	3	400
11	Yantai Development Zone	2001	10.4	1	30
12	Yantai	2004	493.1	4	340
13	Gaoyou	2001	57.6	1	5
14	Bengbu	2002	272.3	1	96
15	Zouping	2002	83.8	1	130
16	Taixing	2002	134.0	2	396
17	Laiyang	2002	172.6	1	72
18	Yancheng	2002	204.1	1	30
19	Huaian	2002	256.6	2	70
20	Haian	2002	100.6	1	4
21	Chuzhou	2002	276.0	1	270
22	Lu'an	2003	119.0	1	60
23	Rizhao	2002	233.0	1	300
24	Xinxiang	2002	368.0	1	500
25	Xinghua	2002	68.8	1	50
26	Bozhou	2003	106.0	1	46
27	Haining	2002	214.0	2	396
28	Quzhou	2002	136.8	3	280
29	Shijiazhuang	2002	552.6	1	602
30	Chaohu	2003	92.9	1	120
31	Lanxi	2003	30.7	0	0
32	Wujin	2003	795.3	2	430
33	Jinhua	2003	84.0	2	210
34	Wenzhou	2003	62.7	1	120
35	Wenzhou Longwan (4)	2004	0.9	0	0
36	Xiangtan	2003	209.4	2	180
37	Dongguan	2003	820.0	4	460
38	Lianyungang	2003	445.1	2	200
39	Changsha	2003	1,059.3	6	1,633
40	Kaifeng	2003	574.2	3	220
41	Jiaozhou	2003	171.1	1	40
42	Zhuzhou	2003	303.8	1	100
43	Jiaonan	2003	214.8	1	120
44	Tongliao	2004	73.9	1	50
45	Guilin	2004	170.0	2	240
46	Huzhou	2004	158.8	1	620
47	Zhanjiang	2004	214.5	1	360
48	Luquan	2004	19.0	1	1,800
49	Shangqiu	2004	113.3	1	240
50	Shantou	2004	64.6	3	180
51	Guigang	2004	92.1	1	100
52	Huangyan	2005	87.3	0	0
53	Yongkang	2005	87.2	1	120
54	Zhaoqing Development Zone	2005	31.7	1	25
55	Luoyang	2006	759.6	2	1,000
56	Quanzhou	2006	221.0	5	567
57	Xiaoshan	1994	250.8	0	0
58	Fengyang	2005	1.8	0	0
59	Nanan	2006	37.8	1	120
60	Huian	2006	46.7	0	0
61	Shishi	2006	42.6	0	0
62	Jinjiang	2006	139.3	1	100
63	Laian	2006	40.9	0	0
64	Ningbo	2007	207.6	0	0
65	Quanjiao	2007	53.1	0	0
66	Xinan	2007	23.9	1	0
67	Dehua	2003	71.8	1	240
68	Guzhen	2007	1.1	0	0
69	Zhaoqing	2008	56.0	1	12
70	Quangang	2008	0.0	0	0
71	Guangzhou Zengcheng	2007	16.2	0	0
72	Haiyan	2008	0.0	0	0
73	Nanchang Sanghai	2009	0.0	0	0
74	Yichuan	2009	0.0	0	0
75	Luanxian	2009	0.0	0	0
76	Longyou	2009	5.9	0	0
77	Sihui	2009	3.0	0	0
78	Yongchun	2009	0.0	0	0
79	Huzhou Nanxun	2009	0.0	0	0
Other project					
Shanghai (CNG)		2002	0.0	0	0
Shanghai (LPG)		2007	0.0	0	0
Shanghai (DME)		2007	0.0	0	0
Other gas refuelling station projects					
Total			**14,126.1**	**94**	**14,637.7**

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 (including natural gas) customers			
Residential households	Commercial/ Industrial customers	Installed designed daily capacity for commercial/industrial customers (m^3)	Number of vehicle gas refuelling stations
141,338	685	423,584	4
92,320	370	97,211	4
44,874	161	110,403	0
122,793	254	120,434	3
0	0	0	0
23,707	116	99,002	0
95,080	151	564,363	2
37,573	256	72,371	0
41,640	73	24,052	0
116,542	206	203,755	3
0	1	12,000	0
257,325	466	773,170	6
19,197	120	15,688	0
110,025	241	312,693	6
20,336	55	125,204	0
25,198	273	87,002	0
34,650	87	34,782	1
89,098	367	231,787	2
101,358	208	195,746	3
19,118	119	38,907	0
55,444	210	308,025	2
50,958	96	30,418	3
69,456	101	80,589	1
148,428	479	277,747	5
16,972	93	16,545	0
17,788	76	16,584	2
28,235	121	130,225	0
39,236	115	73,111	0
479,204	658	616,761	17
43,666	144	78,712	2
7,343	36	10,163	0
93,638	709	922,036	6
34,568	127	51,158	0
8,877	29	53,031	0
476	0	0	0
127,042	495	236,852	4
160,868	957	1,054,646	8
137,180	286	245,242	4
530,911	1,042	1,431,696	8
158,219	739	198,838	1
49,502	110	182,370	1
297,386	836	1,037,547	3
35,503	38	110,394	1
49,796	69	20,315	1
61,692	61	35,396	1
53,830	122	129,428	1
43,778	181	230,292	2
9,609	2	1,670	0
37,318	162	16,682	2
28,954	90	72,919	0
13,855	63	30,100	0
22,477	55	18,650	0
7,668	69	73,563	0
555	10	63,215	0
135,342	520	813,206	3
18,181	70	53,821	1
86,646	131	133,959	0
116	8	79,750	1
1,522	7	114,150	0
3,949	20	20,970	0
4,848	56	10,677	0
13,430	117	546,370	0
6,782	25	47,880	0
70,901	231	61,783	0
12,933	40	16,081	0
1,764	1	350	0
824	170	165,980	0
0	1	5,000	0
6,167	23	18,590	0
0	0	0	0
29,057	10	798	0
0	0		0
0	0	0	0
0	0	0	0
0	0	0	0
1,597	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	4
0	0	0	28
0	0	0	1
			15
4,706,663	**14,020**	**13,486,437**	**162**

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

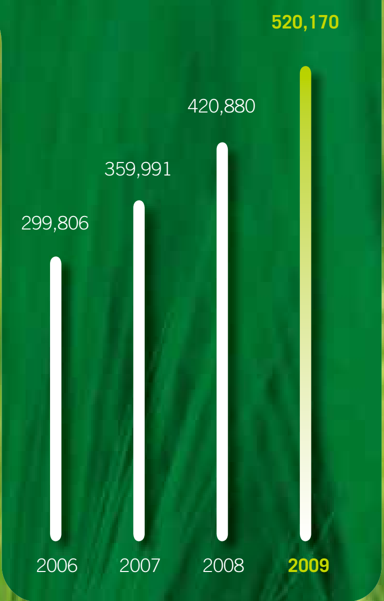
(4) The project in Longwan is operated by Wenzhou Xinao Gas Company Limited. The operational data is included in Wenzhou.

Operational and Financial Summary

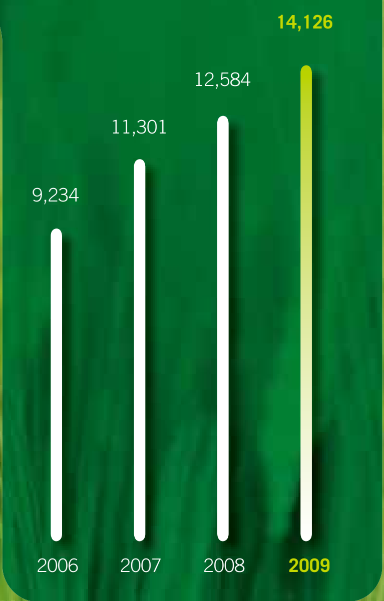
Operational

Accumulated Number of Gas Connections Made to Residential Households
Number of households

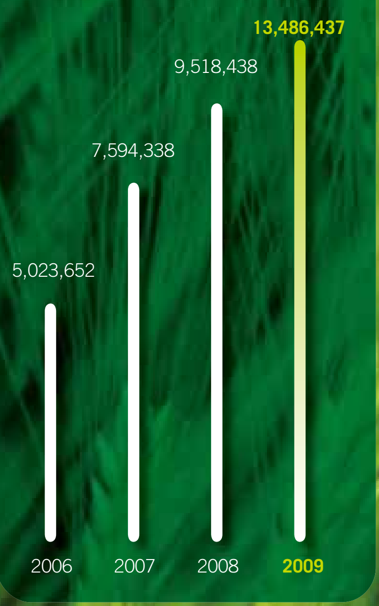
Units of Piped Gas Sold to Residential Households
'000m^3



Length of Existing Intermediate Pipelines and Main Pipelines
km

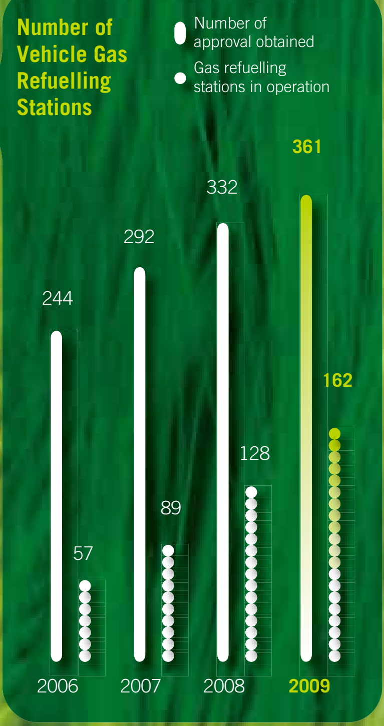


Accumulated Installed Designed Daily Capacity for Commercial/Industrial Customers
m^3

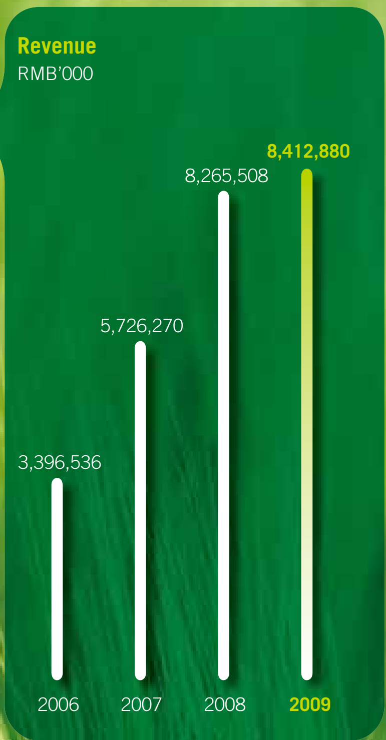


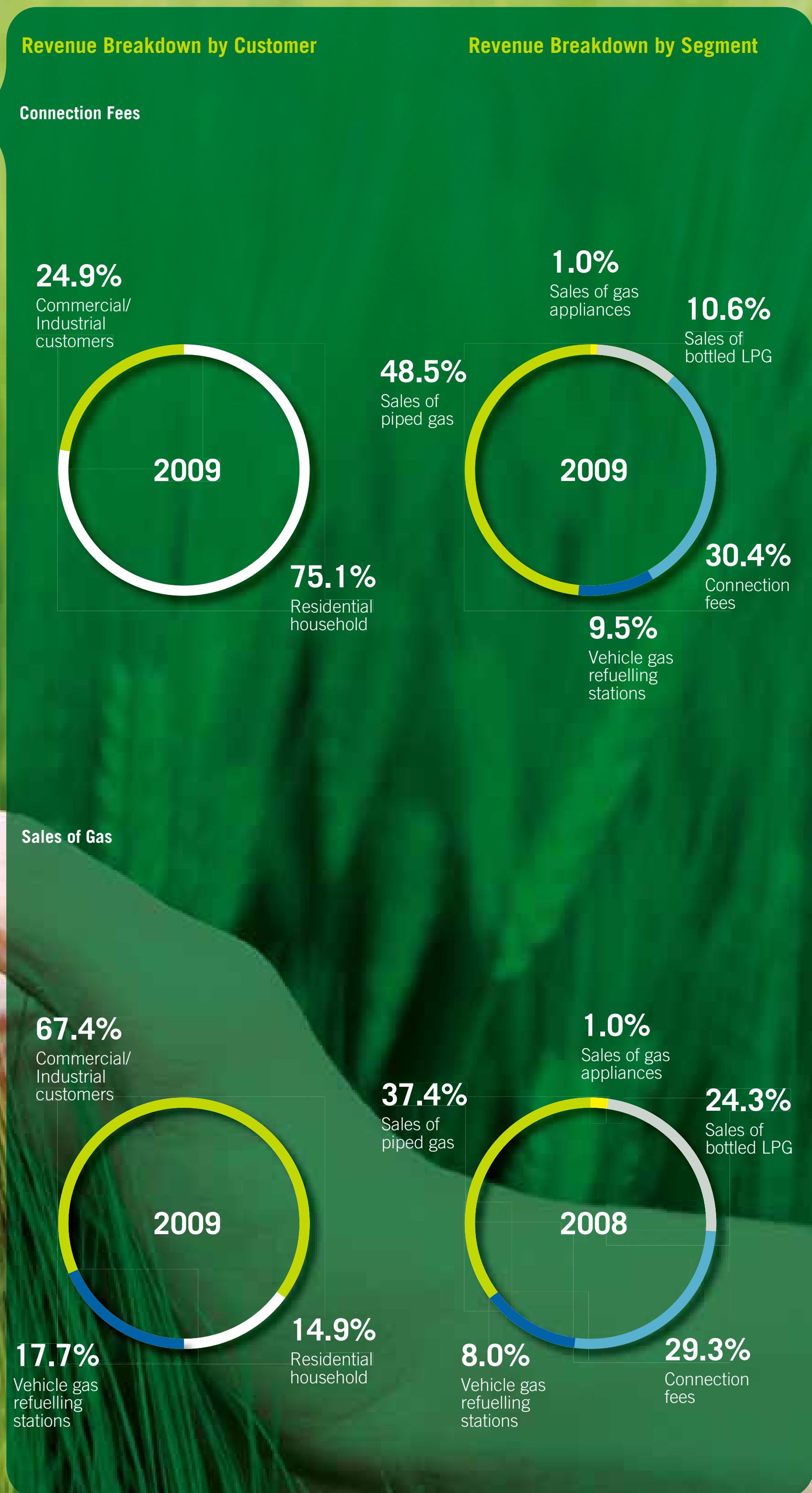
Units of Piped Gas Sold to Commercial/Industrial Customers
'000m^3

Number of Vehicle Gas Refuelling Stations



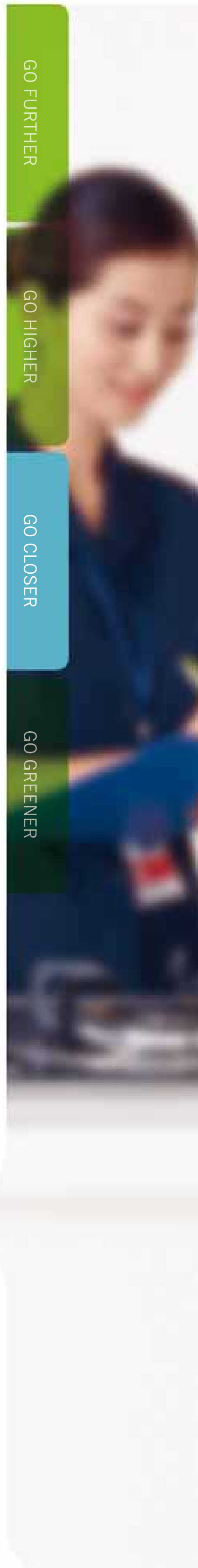
Financial


Revenue
RMB'000
8,412,880
8,265,508
5,726,270
3,396,536
2006
2007
2008
2009


Revenue Breakdown by Customer
Revenue Breakdown by Segment
Connection Fees
24.9%
Commercial/
Industrial
customers
2009
75.1%
Residential
household
1.0%
Sales of gas
appliances
10.6%
Sales of
bottled LPG
48.5%
Sales of
piped gas
2009
30.4%
Connection
fees
9.5%
Vehicle gas
refuelling
stations
Sales of Gas
67.4%
Commercial/
Industrial
customers
2009
17.7%
Vehicle gas
refuelling
stations
14.9%
Residential
household
1.0%
Sales of gas
appliances
37.4%
Sales of
piped gas
24.3%
Sales of
bottled LPG
2008
8.0%
Vehicle gas
refuelling
stations
29.3%
Connection
fees


Profit for the Year
Attributable to Owners
of the Company
RMB'000
800,634
630,705
507,520
379,617
2006
2007
2008
2009

go closer.



We have always regarded safety as the lifeline of an enterprise. In order to ensure safe operation, we have established a health, safety and environmental management system, whereas a great deal of efforts have also been put in fulfilling the commitments of no accidents, no personal injuries and no harmful acts to the environment.

Caring services

Placing customers as our major concern, we apply the idea of "361° – work harder to give our customers an extra degree of satisfaction" in every step of the development, design, construction and operation process. It is always our service goal to gain government's confidence, customer's satisfaction, society's recognition and employee's sense of pride.

Comparison of Ten-year Results

	2009	2008	2007	2006 (Restated)
Highlights (Group)				
Number of connected households (Piped Gas)	**4,706,663**	3,745,145	3,167,800	2,458,735
Installed designed daily capacity for commercial/industrial customers (m^3) (Piped Gas)	**13,486,437**	9,518,438	7,594,338	5,023,652
Units of piped gas sold				
Residential households (m^3)	**520,170,000**	420,880,000	359,991,000	299,806,000
Commercial/industrial customers (m^3)	**2,419,662,000**	2,150,978,000	1,777,497,000	1,027,939,000
Length of existing pipelines[(1)] (km)	**14,126**	12,584	11,301	9,234
Number of existing natural gas processing stations	**94**	90	83	74
Daily capacity of existing natural gas processing stations (m^3)	**14,638,000**	14,378,000	14,149,000	13,563,000
Revenue & Profit (RMB'000)				
Revenue	**8,412,880**	8,265,508	5,756,270	3,396,536
Profit before taxation	**1,381,108**	1,130,679	814,517	533,632
Taxation	**(304,459)**	(259,955)	(108,373)	(49,772)
Profit for the year	**1,076,649**	870,724	706,144	483,860
Minority interests	**(276,015)**	(240,019)	(198,624)	(104,243)
Profit for the year attributable to owners of the Company	**800,634**	630,705	507,520	379,617
Dividends	**200,158**	157,676	126,880	75,923
Assets & Liabilities (RMB'000)				
Non-current assets	**10,609,974**	9,170,242	8,176,070	6,329,211
Associate	**323,880**	292,483	386,111	340,173
Jointly controlled entities	**1,015,641**	757,620	483,672	295,530
Current assets	**4,753,798**	4,353,973	3,504,285	3,070,092
Current liabilities	**(5,364,038)**	(5,428,280)	(3,957,481)	(2,699,439)
Non-current liabilities	**(4,860,998)**	(3,704,598)	(3,931,999)	(3,467,139)
Net assets	**6,478,257**	5,441,440	4,660,658	3,868,428
Capital & Reserves (RMB'000)				
Share capital	**109,879**	106,318	106,318	102,825
Reserves	**5,051,946**	4,149,253	3,629,229	2,953,835
Equity attributable to owners of the Company	**5,161,825**	4,255,571	3,735,547	3,056,660
Minority interests	**1,316,432**	1,185,869	925,111	811,768
	6,478,257	5,441,440	4,660,658	3,868,428
Earnings per share	**77.5 cents**	62.5 cents	51.3 cents	40.5 cents

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

2005	2004	2003	2002	2001	2000
1,793,216	970,339	650,411	210,850	108,001	66,253
2,495,479	1,250,873	631,493	365,113	269,747	139,302
198,488,000	104,912,000	44,967,000	19,123,000	14,089,000	5,645,000
273,051,000	142,798,000	71,626,000	30,407,000	20,496,000	11,259,000
7,268	4,871	1,958	791	464	257
64	51	35	25	12	7
8,786,000	7,493,000	4,709,000	3,178,000	837,800	561,800
2,056,826	1,439,945	878,055	544,492	240,560	122,270
400,540	313,108	199,242	156,058	99,598	50,370
(38,343)	(9,196)	(2,957)	(12,324)	(11,081)	(6,976)
362,197	303,912	196,285	143,734	88,517	43,394
(91,648)	(53,264)	(13,195)	(15,818)	(9,250)	(6,018)
270,549	250,648	183,090	127,916	79,267	37,376
45,440	25,254	–	–	–	30,529
4,390,976	3,013,077	2,104,824	925,307	415,824	260,999
76,571	61,025	10,394	–	–	–
235,432	170,499	22,105	2,500	–	–
2,851,725	1,608,829	960,602	842,558	307,481	174,032
(1,683,310)	(1,261,830)	(1,032,785)	(456,841)	(201,195)	(334,507)
(3,112,245)	(1,230,748)	(587,594)	(276,030)	(51,945)	(20,915)
2,759,149	2,360,852	1,477,546	1,037,494	470,165	79,609
95,819	91,954	78,122	78,122	66,462	–
2,135,667	1,830,610	1,059,977	861,355	386,199	69,830
2,231,486	1,922,564	1,138,099	939,477	452,661	69,830
527,663	438,288	339,447	98,017	17,504	9,779
2,759,149	2,360,852	1,477,546	1,037,494	470,165	79,609
30.5 cents	29.6 cents	24.8 cents	18.0 cents	14.3 cents	8.9 cents

The Group will continue to improve its capital structure and enhance its capital operating ability in order to maintain the stability and reliability of the capital chain.

Industry Review

Energy consumption pattern in China

Currently, the environment of China cannot afford the pollution caused by the existing energy structure by far, and it is among one of the nations which tops the list in respect of emission volume of carbon dioxide and sulphur dioxide. According to the data disclosed in the 2009 Domestic Economy and Social Development Statistics Report of the People's Republic of China ("PRC"), the total annual consumption of energy in China increased by 6.3% as compared to last year. The consumption volume of coal for the year amounted to 3.0 billion tons (up 9.2% over last year); crude oil amounted to 380 million tons (up 7.1% over last year); natural gas amounted to 88.7 billion cubic meters (up 9.1% over last year) while that of electric power was 3,697.3 billion kWh, an increase of 6.2%. On the other hand, China's energy consumption per unit of gross domestic product in ten-thousand dollars decreased by 2.2% during the year.

Coal still remains a major component in the total energy consumption in China, and a large part of the demand for petroleum has to be satisfied by foreign supply. Over 80% of the electric power in China comes from coal. These show that the energy consumption pattern is in an urgent need of improvement so that the development of natural gas, solar energy, wind power, nuclear power and other forms of new energy can be boosted to facilitate energy saving and emission reduction. This is also a strategic option for achieving sustainable growth in the economy of China. As for energy saving and emission reduction, the greatest challenge for China is that its main source of energy comes from coal. In the energy consumption pattern in China, coal accounts for 69% of the primary energy while petroleum accounts for 20% only, not to mention natural gas which accounts for 3.4% and new energy such as hydropower, wind power and nuclear power which merely accounts for 7% in aggregate. Despite the fact that the production capacity of natural gas increased by 15% per annum in the past decade, making China one of the countries which enjoy the fastest growth in the production capacity and consumption level of natural gas, the total volume of capacity is still at a rather low level. Hence, it is imperative to enhance the consumption of natural gas. Currently, laws and regulations such as the Law on Renewable Energy Resources and the Mid- to Long Term Development Plan for Renewable Energy Resources has already been promulgated in China to explicitly specify the goals and directions for optimising the consumption pattern of energy. During the year, the Chinese government has announced its decision to reduce the emission of carbon dioxide per unit of gross domestic product by 40%-45% by 2020, as compared to the rate in 2005. The government is now in the process of introducing various measures to guarantee that such target can be achieved by 2020.

As one of the major types of clean energy specifically promoted by the Chinese government and also one of the best options for building a low-carbon economy, natural gas has achieved robust growth in consumption in recent years. China's natural gas consumption volume increased from 24.5 billion cubic meters in 2000 to 88.7 billion cubic meters in 2009, representing an average compound growth rate of 15% per annum. The government has already explicitly prescribed the use of natural gas as the main source of energy in urban gas utilisation.

In order to promote the natural gas industry, the Chinese government has made significant investment in developing natural gas infrastructure to meet the growing demand for natural gas. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline, Shaanxi-Beijing Pipeline I and II, Zhong-Wu Pipeline, Sebei-Xining-Lanzhou Pipeline, as well as two branch pipelines named Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. The western section and major parts of the eastern section of the West-East Pipeline II and the Sichuan-East Pipeline are expected to come into full operation in 2010, hence further strengthening the annual transportation capacity of natural gas by 52 billion cubic meters. In addition, according to the schedule of the Chinese government, 17 natural gas pipeline projects including West Pipeline IV, China-Myanmar Pipeline and Shaanxi-Beijing Pipeline III will be completed and launched one by one by the end of 2015, while at the same time more and more import LNG terminals will be built along the coast. The real "network era" for the natural gas industry will begin by then. On the other hand, although the consumption of natural gas is rising rapidly given the overwhelming demand, the gas reserve and facilities for peak time usage adjustments are still very insufficient. In 2010, the Chinese government will accelerate the pace of planning and kick off the construction of numerous natural gas storage facilities according to the seasonal consumption of natural gas, so that the peak time usage adjustments in winter will be enhanced.

It is also expected that, in 2020, the urbanisation ratio in China will be increased to 55%-60% from the recent level of 43%, and natural gas will gradually become the major fuel in the urban gas market, therefore providing tremendous potential for sustainable development for urban gas projects. A promising prospect is foreseeable for this business.

The Group's
connectable urban
population reached

43,570,000

During the year,
the piped gas sales
volume reached

2.94 billion m^3

The number of vehicle
gas refuelling stations
owned by the Group is

162

Management Discussion and Analysis

China's policies on city piped natural gas market

As the utilisation efficiency of energy resources gains higher attention from the Chinese government, more and more policies which encourage the use of clean energy resources and optimisation of energy structure has been promulgated.

With a view to relieving the imbalanced demand and supply position of natural gas, improving the natural gas consumption pattern, facilitating energy saving and emission reduction, the Chinese government has announced the Natural Gas Utilising Policy in 2007, which requires the state policy on natural gas utilisation to be formulated by the government in order to ensure priority in using natural gas in cities. This also helps facilitating the scientific use and orderly development of natural gas, thereby enhancing the utilisation efficiency of energy resources.

Meanwhile, in order to promote the development of circular economy, enhance the utilisation efficiency of energy resources, protect and improve the environment and achieve sustainable development, the Chinese government has promulgated the Circular Economy Promotion Law of the People's Republic of China ("Circular Economy Promotion Law") on 29 August 2008. The following is specifically regulated in the Circular Economy Promotion Law which comes into effect on 1 January 2009: "the state encourages and supports enterprises to use highly efficient and oil-saving products. Enterprises in such industries as electric power, oil processing, chemical industry, steel, non-ferrous metal and building materials etc. must replace fuel oil with clean energy, such as clean coal, petroleum coke, natural gas, etc. within the scope and time limit prescribed by the state, and must stop using fuel generator sets and oil boilers that fail to satisfy the relevant state provisions".

On the other hand, as further expressly specified in a paper titled General Missions and Requirements on Energy Resources Issue in China 2010 published by the government, it is the aim of the government to increase the share of natural gas in the primary energy consumption pattern and change the structure of energy in China by facilitating the development and use of natural gas through introducing a series of measures such as exploring more natural gas fields, promoting the use of natural gas resources from foreign countries, accelerating the construction of domestic natural gas pipeline network and strengthening gas reserves.

The promulgation and implementation of such laws and policies have fully demonstrated the determination of the Chinese government to encourage the use of clean energy. It is believed that with the encouragement and support of the said government policies, the Group is well positioned to secure gas supply and attract new customers, whilst showing enormous potential for development in the natural gas industry.

Business Review

The principal businesses of the Group are gas connection, sales of piped gas, construction and operation of vehicle gas refuelling stations, distribution of bottled liquefied petroleum gas ("LPG") and sales of gas appliances.

Gas connection

During the year, the Group continued to focus on boosting connections in existing gas projects, resulting in sustained considerable increases in the overall connection rate every year. As a result, the revenue generated from consistently stable gas sales has become the major source of revenue of the Group.

As of 31 December 2009, the gas penetration rate for residential households of the Group has increased from 27.0% at the end of 2008 to 32.4%. With the continuous rapid growth in the number of users, the share of gas sales in the Group's overall revenue is on the rise. The Group believes that this optimised revenue structure will secure the long-term stable revenue of the Group.

As of the end of 2009, the accumulated length of intermediate pipelines and main pipelines constructed by the Group was 14,126 km, and the number of existing natural gas processing stations reached 94. With a daily natural gas supply capacity of 14,637,700 cubic meters, the Group is able to meet the long term demand arising from existing natural gas projects.

Development of residential households

During the year, the Group provided natural gas connections for 788,281 residential households, up 11.0% as compared with the number of new connections recorded last year, exceeding the original business target set for the whole year. Contribution from the recovery in property market and the Group's strong ability in marketing the new natural gas connections in existing residential buildings during the year are the catalysts for new connections over targets. As of the end of 2009, the aggregate number of piped natural gas residential households amounted to 4,536,753. If other types of piped gas residential households were included, the total number of connected piped gas residential households reached 4,706,663. Supported by the increased number of new project cities as well as the level of urbanisation and organic growth in population coverage in its existing project cities, the urban population coverage of the Group has grown to 43.6 million as at the year end. According to past experience in the industry, the gas penetration rate of residential households could reach over 80% in each city, while the current gas penetration rate of the Group is only 32.4%. As such, the future development in the residential households market still has very large potential. The continual and substantial growth in the number of connected residential households each year fully demonstrated the Group's capability in raising the gas penetration rate of project cities. During the year, the average one-off connection fees collected by the Group from its residential households was RMB2,682.

As the Chinese government has paid more attention to environmental protection and more efforts in optimising the energy structure, the explicit advantages of natural gas comparing with other forms of energy in terms of cleanliness, economic benefits, safety, convenience and environmental protection have become more and more obvious. On the other hand, since the series of policies introduced by the central government of China ensuring the priority in use of natural gas by residential households under all circumstances has guaranteed stability and reliability in use of gas, natural gas has gained higher and higher popularity among governments and consumers, and has become their first preference for activities such as cooking, boiling water and bathing. Also, driven by the year-by-year growth in natural gas supply and the phase-by-phase completion and operation of long distance pipelines

As at the end of 2009, we have 94 natural gas processing stations, with an aggregate daily capacity of 14,637,700 m³.

covering the whole country, gas sources have been further secured. All these factors contributed to encourage connection of piped natural gas in new and existing buildings and stimulate the stable yearly increase in gas penetration rate.

Development of Commercial/Industrial ("C/I") Customers

The Circular Economy Promotion Law promulgated by the Chinese government and becoming effective during the year expressly stipulates that critical industrial customers with high energy consumption must abandon and replace the use of polluting energy (e.g. petroleum) with clean energy (e.g. natural gas). It also requires the adequate utilisation of solar energy and wind power in the architectural design, building and construction process. Moreover, developing low-carbon economy has already become a common target for different countries in the world to achieve sustainable growth. The Chinese government has also kept on promoting the advantages of energy saving and emission reduction. In formulating long-term development plans for energy resources, vigorous promotion of the use of natural gas, a clean and efficient source of energy, is one of the best options for building a low-carbon economy and achieving the goal of energy saving and emission reduction.

During the year, the Group provided natural gas connections for 2,715 new C/I customers (connected to gas appliances with a total installed designed daily capacity of 3,961,090 cubic meters). The average connection fee was RMB192 per standard cubic meter. As of the end of 2009, the Group has provided piped natural gas for 13,583 C/I customers (connected to gas appliances of a total installed designed daily capacity of 13,024,142 cubic meters). If the users of other types of piped gas were included, the Group has accumulated 14,020 C/I customers (connected to gas appliances with a total installed designed daily capacity of 13,486,437 cubic meters).

New Projects

During the year, the Group secured 7 new projects, including Sihui City in Guangdong Province, Yongchun County in Quanzhou City of Fujian Province, Luan County in Hebei Province, Yichuan County in Henan Province, Longyou County and Nanxun County in Huzhou City of Zhejiang Province and Sanghai Development Zone in Nanchang City of Jiangxi Province, thus increasing the number of gas project cities to 79. The connectable population also grew to 43,570,000 (approximately 14,520,000 households). Projects secured this year were located in areas with a higher level of industrial and commercial development. Among these projects, Sanghai Development Zone in Nanchang, Jiangxi Province was the Group's first gas project in that province and thus possessed strategic implication. The remaining 6 projects were located in peripheral towns and cities near existing gas projects, and are therefore able to fully utilise existing resources of the Group to reduce project management and operational costs, thereby enhancing future gas sales of the Group.

Sales of piped gas

During the year, the Group's total sales volume of piped gas was 2,939,832,000 cubic meters, up 14.3% when compared with last year, of which 2,631,502,000 cubic meters was contributed by sales of natural gas, representing an year-on-year increase of 19.6%. The proportion of piped gas sold to residential households, C/I customers and vehicle customers amounted to 17.7%, 69.1% and 13.2% respectively, representing an increase of 23.6%, 11.8% and 16.3% as compared with last year. Since the Group adjusted its development strategy and focused on increasing the gas penetration rate in the past few years, the sales volume of piped gas has been increasing continuously, making revenue from gas sales the major source of income of the Group. After the

Management Discussion and Analysis

Group reduced its bottled LPG business substantially, the percentage of revenue from gas sales over total revenue still attained 68.6%. This entirely demonstrated that the Group has now possessed a more stable and long-term revenue base and has reduced its reliance on one-off connection fees gradually, therefore improving and optimising its revenue structure. Given that the overall gas penetration rate of residential households remains at a rather low level of 32.4%, the Group will continue to boost the gas penetration rate of residential households. On the other hand, the consistent growth in China's economy also creates more potential C/I customers for new connections, while the development of environmental friendly vehicles will be able to bring along more opportunities for building natural gas vehicle refuelling stations. It is expected that the share of gas sales in total revenue of the Group will further increase and such development will deliver long-term and stable cash flow to the Group.

Construction and operation of vehicle gas refuelling station

During the year, the Group continues to regard vehicle gas refuelling business as one of its core businesses. The number of vehicle gas refuelling stations completed and started operation was 34 during the year, adding to a total of 162 vehicle gas refuelling stations located in 44 cities of the state, among which nine were not gas project cities of the Group. In addition, as of the end of 2009, the number of vehicle refuelling stations which have obtained construction approval from the local governments has accumulated to 361. In 2009, the Group has completed the conversion of 5,425 taxis and 267 buses into natural gas vehicles, adding to a total number of 23,401 taxis and 1,091 buses using natural gas. This contributes to the increase in the proportion of vehicle gas sales over the total volume of gas sales to 13.2%.

Gas emission from vehicles is one of the major causes of pollution, especially in area with dense population and area which is 3 meters underneath the ground and has human activities. Hence, as the Chinese government puts more emphasis on the optimisation and adjustment of energy structure and environmental protection, and takes more stringent stance on the implementation of energy saving and emission reduction policies, the use of clean energy by vehicle has become a growing trend. In addition, the overwhelming economic benefits and environmental friendliness of clean energy such as natural gas and dimethyl ether ("DME") as compared to vehicle-used gasoline and diesel has given immense momentum to the growth of the promising refuelling station business which has delivered significant contribution to both environmental protection and the Group's profitability.

Gas source

Following the robust development of the natural gas industry in China, the relevant infrastructure has been further improved and the supply capacity is also rising year by year. In 2009, the total consumption of natural gas in China reached

Gas emission from vehicles is one of the major causes of pollution. We will continue to convert more vehicles into clean energy vehicles in order to protect our home.

88.7 billion cubic meters, representing a year-on-year increase of 9.1%. The western section of the West-East Pipeline II and the Sichuan-East Pipeline, which have a total annual transportation capacity of 40 billion cubic meters and 12 billion cubic meters respectively, have started to supply gas during the year. Consequently, the growing demand for natural gas has received strong support and the large excess in demand has also been greatly relieved. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline, Shaanxi-Beijing Pipeline I and II, Zhong-Wu Pipeline, Sebei-Xining-Lanzhou Pipeline, as well as two branch pipelines named Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. Major parts of the eastern section of the West-East Pipeline II and the whole Sichuan-East Pipeline are expected to come into full operation in 2010. In addition, according to the schedule of the Chinese government, 17 natural gas pipeline projects including West Pipeline IV, China-Myanmar Pipeline and Shaanxi-Beijing Pipeline III will be completed and launched one by one by the end of 2015. Moreover, the construction of LNG terminals in coastal areas planned by the government has been completed, among which 3 have been put into operation. By 2012, the construction of the national natural gas pipeline network will be basically completed. This further ensures that all piped gas projects of the Group will be able to enjoy stable supply of piped natural gas in the long run. Generally speaking, all piped natural gas projects of the Group have entered into guaranteed contract for gas supply with their upstream suppliers. With such stable source of gas, the Group is therefore able to attract new customers.

Besides fully utilising such extensive gas pipeline network and LNG terminals, the Group has also endeavored to search for other sources of energy supply. Apart from the existing LNG processing plants in Beihai, the other two LNG plants in Yinchuan, Ningxia Province and Jincheng, Shanxi Province were completed and came into operation as scheduled during the year. The annual production capacity of these LNG plants is around 400 million cubic meters in aggregate and has created new gas sources for the Group. Moreover, the Group possesses a massive non-pipeline transportation system (including LNG and CNG transportation trucks) with an one-off maximum transportation capacity of over 5.5 million cubic meters. Coupled with this strength, the Group will be able to secure more stable gas supply and hence enjoy a higher degree of protection on gas sources.

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 household 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.

On the other hand, some of the Group's project companies have been cooperating with local banks for collection of gas usage charges. The widespread network resources of the banks have fostered satisfactory results in collecting gas usage charges as it offers great convenience to customers in paying their bills. During the year, in order to provide more convenient and economic payment methods for customers, the Group has implemented an easy payment program in 10 group companies including Changsha and Kaifeng. The program aims at providing more convenient payment methods for customers whilst saving huge administrative costs for the Company at the same time by setting up fee collection system in various convenience stores and supermarkets located near the residential districts.

Sales of bottled LPG

During the year, the Group sold 357,364 tons of LPG (2008: 599,567 tons), decreased by 40.4% over last year.

As the Group reduced the bottled LPG business that carries low gross profit margin, more resources can be allocated on piped gas projects. As a result, both the operational efficiency and returns to shareholders can be further enhanced.

Sales of gas appliances

Besides offering piped gas connection services to our customers, the Group also continues to sell cooking stoves, water boilers, heaters and stored-value card gas meters. The Group has established its own production plant of stored-value card gas meters and the products were deployed for internal use in the Group's connection business as well as being sold to other gas distributors. Such measure could lower the cost of connection, ensure collection of gas usage charges and generate additional revenue for the Group at the same time.

Gross and net profit margins

During the year, the Group's overall gross and net profit margins were 30.2% and 12.8% respectively, representing increases of 3.0% and 2.3% as compared with last year.

The main contributor for the increase in gross and net profit margins came from the Group's strategy to substantially slowdown the bottled LPG business which was down by 40.4% during the year, and as a result the turnover maintained at a similar level as last year in general. Since the margins of the bottled LPG business was only below 1% while that of gas connections and gas sales reached 57.1% and 21.4% respectively, the shrink in the bottled LPG segment directly attributed to the increase in the Group's overall gross and net profit margins. On the other hand, the continuous change in the Group's revenue structure, i.e. the gradual decrease in connection fee income over the total revenue and the recognition of connection fee income from certain projects by amortization, has stimulated the decrease in gross profit margin. The share of connection fee in total revenue remained at a similar level as last year, whereas the share of gas sales in total revenue reached 68.6%. Such changes have fully demonstrated the effect of the Group's strategy of reducing its effort in acquiring new projects and putting more emphasis on increasing the gas penetration rate of its existing projects while maintaining its rapid growth momentum. As for the increase in net profit margin, in addition to the shrink in the LPG segment, the effective cost control on specific items also plays a significant role. As compared with the corresponding period last year, the cost of sales has dropped by 2.4%, while the percentage of administrative expenses over revenue has considerably decreased from 12.6% to 10.2%, showing the benefits of the Group's economies of scale and good cost control.

Management Discussion and Analysis

Advanced Safety Operation Management System

The Group insisted on placing safe operation as its top priority and continued to maintain a good record of safe operation. Under the health, safety and environmental management system established by the Group, standardised management was applied to all production activities. Through encouraging employees to become "safety-conscious employees", both their skills and awareness on ensuring safety have been greatly enhanced. The Group has also fostered innovation of safety technology and promoted the application of safety equipments and technology, so that the foundation of safety operation can be further strengthened. On the other hand, a great deal of efforts have been put in promoting the "3-No Campaign" (no accidents, no personal injuries and no harmful acts to the environment) and executing various controlling measures, thus ensuring the safe operation of the Group and setting a role model in the industry for running a standardised and modern management system of safe operation.

Meanwhile, for the purpose of promoting safe operation in the Group, improving professional qualification and expertise of employees, providing better services to customers and supporting the rapid development of the Group's gas supply facilities and customer base, the Group has set up 3 levels of capability (i.e. junior, middle and senior) for 4 job positions, namely workers for construction of gas sites, pipeline paving, on-site installation and maintenance of equipments, as well as gas sales representatives. The capability recognition program has been implemented in 8 companies in the group on a trial basis, in which 281 employees attained junior level while 54 attained medium level. In 2010, the Group will carry on the professional trainings to allow more employees achieving a higher level of capability.

Excellent Management

During the year, the informatisation program launched by the Group in cooperation with IBM (China) Company Limited ("IBM") has attained good progress and has been implemented in the group companies according to the original schedule, leading to a significant enhancement in the operational efficiency. As such, an information system for the purpose of strategic performance was built during the year, realising the real-time online integration of different categories of business figures such that various categories of business figures and the corresponding analysis reports are accessible by the management at anytime. Such information system has also enabled performance review meetings to be conducted with access to real-time figures online. As a result, the benefit of high efficiency brought by informatisation has established a strong foundation to support the decisions of the Group. During the year, with the continued use of refined management tools such as balanced scorecard, strategies of the Group were passed on from upper levels to each employee who was then required to submit action plans according to the strategy of the organisation such employee works in. Appraisals would also be done on the actual results of the work compared with the employee's own action plan. This guaranteed consistency of goals between organisation level and individual level, ensured speedy conveying and effective implementation of the Group's strategies, and also greatly enhanced the capability of staff. In light of the outstanding achievement in implementing informatisation, the Group received the honor of "Achievement in Promoting Informatisation by Major Company" together with seven renowned corporations in the "Top 500 in Informatisation 2008" organised by the National Informatisation Evaluation Center during the year. The Group has also won the award "Best Management and Application of Customers' Relations" on its own.

In 2009, in recognition of our well-developed business models, excellent financial performance, enormous potential for growth and distinguished corporate governance, the Company was ranked number one by the famous financial magazine The Asset as "China's Most Promising Companies 2009" for the power and utilities sector.

On the other hand, our annual report was again awarded "Gold, Annual Reports: Energy" by the Annual International Galaxy Awards. We also received the honor of "Citation for Design, The Best Annual Reports Awards" for year 2009 from the Hong Kong Management Association. These remarkable achievements fully evidenced the timely and accurate disclosure of information with detailed contents in our annual reports, and our efficient communication with our shareholders.

Customer service

It is always the Group's belief 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. During the year, besides the consistent use of informatisation program to provide rapid and efficient services to customers, the Group has also set up national customer service centre, service support centre, service supervision centre and national call centre to create even more satisfactory services for its customers through all-rounded allocation of resources and comprehensive solutions. At the same time, the structure of the regional call centre has been confirmed and two such centres supporting customers from the whole country were built and launched during the year to enhance customer service quality.

In 2009, companies within the Group continued to acquire recognition and compliments from customers and government authorities in the cities it operated for their quality customer services, and a number of group companies have obtained awards like "Units with High Consumer Satisfaction" from the local consumer councils for several consecutive years. Furthermore, certain well-performed employees received the title "Model Labor in the State" at state level while certain teams won the awards "Pioneers of Work Labors" and "Females with Outstanding Achievements" at provincial level as recognition to their excellent performance in customer service.

All group companies are required to visit customers for safety checks on their gas appliances twice a year. These measures, drawing on the concept of "prevention is better than cure", help to eliminate customers' worries on potential safety problems, and thus increase their confidence in our services.

Human Resources

The Group always regards its staff as its most valuable assets. We believe that consistently maintaining employees' passion and enthusiasm is the only key for moving forward, and that staff could provide satisfactory service to customers only if they are offered the opportunity of healthy development. It is also the deep faith of the Group that talents are the source of its competitiveness and the critical factor for success and future development. Hence, the Group has always attached importance to talent cultivation and recruitment and also provided newly recruited staff with induction training, learning opportunity as well as heart-warming care in daily lives. All these measures enable new staff to master the business operation of the company and gain a deeper understanding of the Company's culture.

Following the rapid growth of the Group and the acceleration in its progress of internationalisation, a more stringent standard has been set on the capability and qualification of staff. To achieve this, management's appraisal was linked with their performance in team building and talent cultivation. Also, in order to cultivate talents who are good at responding quickly to changing situations and who have multi kinds of capabilities, certain employees were shortlisted by the Group to pursue further study and receive trainings in famous colleges in China or overseas. The Group has also developed a "competency grading system for staff at the basic level" to explore different potentials of staff for widening their career paths.

During the year, the Group continued the use of different approaches, such as establishment of capability enhancement system, talent test and development, trainings and qualification programs hosted by internal instructors, as well as trainings and development programs for senior management. All these aim at establishing a capability-based human resources system in line with the Group's strategies which will continuously enhance the capability of staff and provide necessary support for the organisation, thereby ensuring that the targets of the Group can be achieved.

As at 31 December 2009, the Group had 16,856 employees, of which 12 were based in Hong Kong while the others were based in China. They were remunerated at market level with benefits like bonus, retirement benefits, professional training, share option scheme, etc.

Financial resources review

Liquidity and financial resources

As at 31 December 2009, the Group's cash on hand was equivalent to RMB2,712,661,000 (31 December 2008: RMB1,725,358,000), and its total debts was equivalent to RMB5,884,509,000 (31 December 2008: RMB5,403,140,000). Its net gearing ratio, i.e. the ratio of net debt to equity (including minority interests), was 49.0% (31 December 2008: 67.6%).

Under the US$25,000,000 Loan Agreements with International Financial Corporation ("IFC") and the subsequent amendment, 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, all being 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 of Xinao Group International Investment 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 2009, XGII and Mr. Wang together held 31.75% interests of the Company. The remaining balance of the US$25,000,000 loan has been repaid in full during the year according to the terms of the Loan Agreements.

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 China, if RMB appreciates in the future, the Group will benefit from earning RMB and repaying foreign currency debts, and the costs 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 2009, the Group's total debts amounted to RMB5,884,509,000 (31 December 2008: RMB5,403,140,000), including bank loans and bonds of US$360,000,000 (equivalent to RMB2,443,721,000) and bank loans of HK$15,566,000 (equivalent to RMB13,706,000). Apart from the US$200,000,000 bonds and RMB800,000,000 short-term debenture which bear interest at fixed coupons and other US dollar loans and HK dollar mortgage loans bear interest at floating rates, the remaining bank and other loans are denominated in Renminbi and bear interest at the interest rates announced by the People's Bank of China. The project companies used the Renminbi loans as their capital expenditure, working capital and operational expenditure. Except for the bank and other loans amount equivalent to RMB1,609,706,000 that are secured by assets with an carrying amount equivalent to RMB49,478,000, all of the other loans are unsecured. Short-term loans amounted equivalent to RMB675,796,000 while the remaining were long-term loans falling due after one year or above. Details of capital commitments and financial guarantee liability are set out in Notes 46 and 38 to the Consolidated Financial Statements respectively.

As all the operations of the Group are in China, revenues and expenses were mainly denominated in Renminbi. Hence, there were no significant foreign exchange exposures or risks. The Group will monitor the market trends of interest rates and exchange rates closely and adopt appropriate measures when necessary.

Powering a better future

Through the smart use of all existing kinds of energy and wisdom, we strive to enhance people’s living quality and power a better future with the use of clean energy. Come and join us.

go greener.

Sunshine | Natural Gas | Wind | Water | Biomass

While environmental issue has gained global concern, thanks to its low pollution, low emission and low energy consumption nature, the development of low carbon economy has become a common target worldwide, and the adoption of clean energy is an inexorable option for developing low carbon economy.

Directors and Senior Management

From left to right:

WANG Yusuo
CHEN Jiacheng
(resigned with effect from 31 March 2010)

ZHAO Jinfeng
YU Jianchao
CHEUNG Yip Sang

CHENG Chak Ngok
LIANG Zhiwei
ZHAI Xiaoqin

The Group was ranked number 1 by the famous financial magazine, The Asset, as "China's Most Promising Companies 2009" for the power and utilities sector.

Executive Directors

Mr. WANG Yusuo, aged 46, 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 23 years of experience in the investment in, and the management of, the gas business in the PRC. He holds a PhD qualification in management from the Tianjin University of Finance and Economics. Mr. Wang is currently a standing committee member of the Eleventh Chinese People's Political Consultative Conference. He has won various awards, including Outstanding Entrepreneurs in China and Hebei's Top 10 Outstanding Young Persons . Mr. Wang is the spouse of Ms. Zhao Baoju and the brother-inlaw of Mr. Zhao Jinfeng. Mr. Wang is a director and a controlling shareholder of Xinao Group International Investment Limited ("XGII"), which is a controlling shareholder of the Company. He was also previously the chairman and an executive director of Enric Energy Equipment Holdings Limited (a Hong Kong listed company, now known as CIMC Enric Holdings Limited), but had resigned from such positions with effect from 15 October 2007. Mr. Wang and Ms. Zhao Baoju jointly control various investment holding companies.

Mr. CHEN Jiacheng, aged 47, is an Executive Director and the Chief Executive Officer of the Company. Mr. Chen joined the Group in 2002 and was responsible for executing the Group's overall strategies, decision-making on important affairs and the execution thereof, and ensuring the safety of the Group's projects. He was awarded a bachelor's degree in engineering from Northwest Industrial University in 1983 and a master's degree in business administration from Tsinghua University in 1999. Mr. Chen has over 19 years of experience in corporate governance and has extensive exposure in modern corporate management. He resigned from the positions of Executive Director and the Chief Executive Officer with effect from 31 March 2010.

Mr. ZHAO Jinfeng, aged 42, is an Executive Director of the Company responsible for coordinating the Group's investment in PRC projects. He graduated from the Township and Village Enterprise Cadre College of the Ministry of Agriculture and received an executive master's degree in business administration from the Sino-Europe International Business School in 2006. Prior to joining the Group in 1993, Mr. Zhao worked at Langfang City Electrical Company responsible for resources management. Mr. Zhao has over 17 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. YU Jianchao, aged 41, 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 an executive master's degree in business administration from the Sino-Europe International 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 21 years of experience in accounting and financial management. Mr. Yu is a director and president of XGII, which is a controlling shareholder of the Company. He was also previously an executive director of Enric Energy Equipment Holdings Limited (a Hong Kong listed company, now known as CIMC Enric Holdings Limited), but had resigned from such position with effect from 15 October 2007.

Mr. CHEUNG Yip Sang, aged 43, is an Executive Director and the General Manager of the Company responsible for the daily operation and management and the business expansion of the Group. Mr. Cheung joined the Group in 1998. He graduated from The Chinese People's Armed Police Force Academy in 1990 with a bachelor's degree in Legal Studies and received an executive master's degree in business administration from the Peking University in 2006. Mr. Cheung has extensive experience in corporate governance and the market integration in the public utilities sector. He also has wide exposure in the research and development of the gas industry. He has been appointed as the Chief Executive Officer with effect from 31 March 2010.

Mr. CHENG Chak Ngok, aged 39, 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 now studying an executive master's degree in business administration in the Peking University. He is a fellow member of the Association of Chartered Certified Accountants in England and the Hong Kong Institute of Certified Public Accountants, and the associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in England. Mr. Cheng has over 17 years of experience in accounting, financial management and corporate finance. Mr. Cheng is the vice president and financial controller of XGII, which is a controlling shareholder of the Company.

Mr. LIANG Zhiwei, aged 46, is an Executive Director of the Company responsible for the management and execution of the Company's internal strategies and performance appraisal. He graduated from the 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, and has just received the executive master's degree in business administration from the Sino-Europe International Business School. Prior to joining the Group in 1999, Mr. Liang had worked for the China Metallurgical Geology Bureau for 15 years. Mr. Liang is experienced in the competition of and governmental control on city piped gas, pricing mechanism research and enterprise's internal strategic performance management.

Ms. ZHAI Xiaoqin, aged 41, is an Executive Director of the Company responsible for monitoring audit process and carrying out risk management. She graduated from the School of Economic and Management of the Tsinghua University in 1996 and received a master's degree in business administration from the Beijing Institute of Technology in 2001. She has just obtained the executive master's degree in business administration from the Sino-Europe International Business School. Prior to joining the Group in 1996, Ms. Zhai had been serving in Nantong Yifanda Computer Company Limited as the Sales Director. Ms. Zhai has accumulated more than 13 years' experience in strategic management, risk management and corporate governance.

Non-executive Directors

Ms. ZHAO Baoju, aged 44, is a cofounder and a Non-Executive Director of the Company. She has over 17 years of experience in investing in gas fuel projects in the PRC. She graduated from the Hebei Medical College Professional 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. She was also previously a non-executive director of Enric Energy Equipment Holdings Limited (a Hong Kong listed company, now known as CIMC Enric Holdings Limited), but had resigned from such position with effect from 15 October 2007. Ms. Zhao and Mr. Wang Yusuo jointly control various investment holding companies.

Mr. JIN Yongsheng, aged 46, is a Non-Executive Director of the Company. He graduated from the Tianjin University of Finance and Economics in 1986, specialising in finance, and has 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 20 years of experience in legal practice. Mr. Jin is a director of XGII, which is a controlling shareholder of the Company. He is also a non-executive director of CIMC Enric Holdings Limited (a Hong Kong listed company, previously known as Enric Energy Equipment Holdings Limited).

Independent Non-executive Director

Mr. WANG Guangtian, aged 46, is an Independent Non-Executive Director appointed by the Company in 2001. He holds a master's degree in world economics from the Hebei University and has over 27 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. He is also an independent non-executive director of China Oil And Gas Group Limited, a Hong Kong listed company.

Ms. YIEN Yu Yu, Catherine, aged 39, 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 (BScHons). 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 40, 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 in England and the Hong Kong Institute of Certified Public Accountants. Mr. Kong has extensive experience in auditing, tax planning and finance.

Senior Management

Mr. ZHAO Shengli, aged 40, is the Executive Deputy General Manager of the Company responsible for assisting the Chief Executive Officer and the General Manager in gas project management and market expansion. He received a master's degree in business administration from the Tsinghua University in 2000. Prior to joining the Group in 1999, he worked in the China National Nuclear Corporation. Mr. Zhao has extensive experience in corporate governance and market expansion.

Mr. LIU Yongxin, aged 47, is the Deputy General Manager of the Company mainly responsible for the expansion and management of overseas gas projects. He graduated from the Xi'an Jiaotong Technology University (now known as Chang'an University) with a master's degree in automobile applied engineering in 1987 and obtained a master's degree in Finance from the Massey University in New Zealand in 1999. Prior to joining the Group in 2008, he worked at Exxon Mobil and BP holding various important positions in the marketing, operation and business development departments. Mr. Liu has accumulated over 17 years' experience in operation, marketing and corporate governance in the energy sector.

Mr. HAN Jishen, aged 45, is the Deputy General Manager of the Company and the General Manager in Hunan, Guangxi and Yunan areas, responsible for assisting the Chief Executive Officer and the General Manager in expanding the market and the operation and management of projects. He joined the Group in 1993 and was graduated from Baoding Staff University in 1990 and obtained an executive master's degree in business administration from the Nanyang Technological University in Singapore in 2007. He has over 17 years of experience in the gas fuel industry in the PRC.

Mr. YIN Xuexin, aged 45, is the Deputy General Manager of the Company and the General Manager in Beijing, Hebei and Liaoning areas. He joined the Group in 1987, and is responsible for assisting the Chief Executive Officer and the General Manager in project management and market expansion. Mr. Yin graduated from the Guanghua School of Management of the Peking University with an executive master's degree in business administration in 2009. He has wide exposure in corporate governance and has accumulated over 20 years of experience in the gas industry in China.

Mr. WANG Dongzhi, aged 41, is the Deputy General Manager of the Company. Mr. Wang graduated in 1991 with a bachelor's degree in engineering management from the 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 the 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 financial management. Mr. Wang was the former Chief Accountant and was appointed as the Deputy General Manager of the Company in January 2009.

Mr. ZHOU Liqun, aged 45, is the Deputy General Manger of the Company and the General Manager in Guangzhou, Fujian and Jiangxi areas responsible for assisting the Chief Executive Officer and the General Manager in project management and market expansion. Mr. Zhou holds a Qualification Certification of Senior Engineer and is now studying for an executive master's degree in business administration from the Sino-Europe International Business School. Prior to joining the Group in 2003, he worked at a chemical fertilizer factory and a liquefied gas plant in Yancheng City. He had also held the positions of general manager and senior engineer in Yancheng Lianfu Petroleum-Chemistry Limited. Mr. Zhou has accumulated more than 27 years of experience in the energy sector.

Ms. GE Hua, aged 47, is the Deputy General Manger of the Company and the General Manager in Zhejiang and Shanghai areas responsible for assisting the Chief Executive Officer and the General Manager in project management and market expansion. Prior to joining the Group in 2000, Ms. Ge worked in China Trust Investment Citic Trading Company Limited. She received a master's degree from the School of Management of the Fudan University in 2005 and has extensive experience in corporate governance.

Mr. CHEN Fuchao, aged 53, is the Deputy General Manager of the Company and the Regional General Manager in Shandong area responsible for assisting the Chief Executive Officer and the General Manager in project management and market expansion. He graduated from the School of Mathematics of the Huaiyin Normal University in 1981, and the Nantong Management College in 1987 majoring in industrial economics. He is now studying an executive master's degree in business administration from the Xiamen University. Prior to joining the Group in January 2004, Mr. Chen worked in the local government of Huaiyin City, Jiangsu Province as the primary person-in-charge of a government department. He has 30 years of experience in corporate management.

Directors' Report

The Directors have pleasure in submitting to shareholders their annual report and the audited consolidated financial statements for the year ended 31 December 2009.

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 2009 are set out in the Consolidated Statement of Comprehensive Income on page 75.

The Directors recommend the payment of a final dividend of HK21.65 cents (equivalent to approximately RMB19.06 cents) per share to the shareholders on the register of members on 30 June 2010. The total dividend amount is approximately RMB200,158,000, and the retention of the remaining profit for the year is approximately RMB600,476,000.

Financial Summary

Details of the summary of the published financial information of the Group for the past ten years are set out on pages 20 to 21.

Property, Plant and Equipment

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB1,628,266,000 has been incurred in acquiring property, plant and equipment.

During the year, the Group revaluated its properties, resulting in a revaluation surplus amounting to RMB28,570,000, of which RMB37,914,000 has been debited to the property revaluation reserve and RMB9,344,000 has been credited to the consolidated statement of comprehensive income.

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

Share Capital

Details of movements during the year in the share capital of the Company are set out in Note 40 to the Consolidated Financial Statements.

Reserves

Details of movements during the year in the reserves of the Group are set out in the Consolidated Statement of Changes in Equity on pages 78 to 79.

Bank and Other Loans

Details of bank and other loans of the Group are set out in Note 36 to the Consolidated Financial Statements.

Charitable Donations

Charitable donations by the Group for 2009 amounted to RMB26,698,000.

Directors' Emoluments

Details of Directors' emoluments are set out in Note 12 to the Consolidated Financial Statements.

Directors

The Directors of the Company as at the date of this report are:

Executive Directors:

Wang Yusuo (Chairman)
Cheung Yip Sang (Chief Executive Officer)
Zhao Jinfeng
Yu Jianchao
Cheng Chak Ngok
Liang Zhiwei
Zhai Xiaoqin

Non-executive Director:

Zhao Baoju
Jin Yongsheng

Independent non-executive Directors:

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

In accordance with Article 116 of the Company's Articles of Association, Messrs Cheung Yip Sang, Zhao Baoju, Jin Yongsheng and Wang Guangtian retire by rotation and, being eligible, offer themselves for re-election.

As of 31 December 2009, 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 2009, 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 Issuers ("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	176,000 (Note 2)	333,275,000 (Note 1)	–	333,451,000	–	333,451,000	31.75%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	–	333,275,000 (Note 1)	176,000 (Note 2)	333,451,000	–	333,451,000	31.75%

Notes:

1. The two references to 333,275,000 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.

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 2009, 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).

Directors' rights to acquire shares

Pursuant to the Company's share option schemes, the Company has granted options to subscribe for 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$)	Number of shares subject to outstanding options as at 1 January 2009 (Note 2)	Number of shares involved under options exercised during the year (Note 2)	Number of shares subject to outstanding options as at 31 December 2009 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 31 December 2009 (Aggregate)
Mr. Chen Jiacheng	15.03.2006	16.09.2006 – 15.03.2016	6.650	1,300,000	1,300,000	–	–
(Note 3)	15.03.2006	16.03.2008 – 15.03.2016	6.650	3,250,000	3,250,000		
Mr. Zhao Jinfeng	15.03.2006	16.09.2006 – 15.03.2016	6.650	1,300,000	1,300,000	–	–
	15.03.2006	16.03.2008 – 15.03.2016	6.650	3,250,000	3,250,000		
Mr. Yu Jianchao	15.03.2006	16.09.2006 – 15.03.2016	6.650	1,300,000	1,300,000	–	–
	15.03.2006	16.03.2008 – 15.03.2016	6.650	3,250,000	3,250,000		
Mr. Cheung Yip Sang	15.03.2006	16.09.2006 – 15.03.2016	6.650	1,140,000	1,140,000	–	–
	15.03.2006	16.03.2008 – 15.03.2016	6.650	2,850,000	2,850,000		
Mr. Cheng Chak Ngok	15.03.2006	16.09.2006 – 15.03.2016	6.650	160,000	160,000	–	–
	15.03.2006	16.03.2008 – 15.03.2016	6.650	400,000	400,000		
Total				18,200,000	18,200,000	–	–

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. These shares represent personal interests held by the directors as beneficial owners during the year.
3. Mr. Chen Jiacheng resigned from directorship of the Company with effect from 31 March 2010.

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 2009, 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	Beneficial interests	Interests in shares Corporate interests	Family interests	Total interests in shares (Note 4)	Approximate percentage of the Company's total issued share capital as at 31 December 2009
Mr. Wang	Beneficial owner and interest of controlled corporation	176,000 (Note 2)	333,275,000 (Note 1)	–	333,451,000 (L)	31.75%
Ms. Zhao	Interest of controlled corporation and interest of spouse	–	333,275,000 (Note 1)	176,000 (Note 2)	333,451,000 (L)	31.75%
XGII	Beneficial owner	333,275,000 (Note 1)	–	–	333,275,000 (L)	31.74%
Penta Investment Advisers Ltd.	Investment manager	–	62,921,128 (Note 3)	–	62,921,128 (L)	5.99%
Mr. John Zwaanstra	Interest of controlled corporation	–	62,921,128 (Note 3)	–	62,921,128 (L)	5.99%
Capital Research and Management Company	Investment manager	–	113,901,000	–	113,901,000 (L)	10.85%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/ approved lending agent	–	82,555,224	–	82,555,224 (L) (including 58,504,168 (P))	7.86%
Commonwealth Bank of Australia	Interest of controlled corporation	–	83,553,000	–	83,553,000 (L)	7.96%

Notes:

1 The three references to 333,275,000 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. The two references to 62,921,128 shares relate to the same block of shares. Such shares are held by Penta Investment Advisers Ltd., which is 100% beneficially owned by Mr. John Zwaanstra, in the capacity of an investment manager.

4. (L) represents Long Position; (P) represents Lending Pool.

Save as disclosed above, as at 31 December 2009, 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 2009, 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 43 to the Consolidated Financial Statements and the section headed "Directors' rights to acquire shares" in this report.

The following table discloses 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$)	Number of shares subject to outstanding options as at 1 January 2009	Number of shares involved under options exercised during the year	Number of shares subject to outstanding options as at 31 December 2009 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 31 December 2009 (Aggregate)	Weighted average closing price of shares immediately before the date of exercise of options (HK$)
Directors	15.03.2006	16.09.2006 – 15.03.2016	6.650	5,200,000	5,200,000	–	–	12.6
	15.03.2006	16.03.2008 – 15.03.2016	6.650	13,000,000	13,000,000			12.6
Employees	15.03.2006	16.09.2006 – 15.03.2016	6.650	6,340,000	6,340,000	–	–	12.6
	15.03.2006	16.03.2008 – 15.03.2016	6.650	15,850,000	15,850,000			12.6
Total				40,390,000	40,390,000	–	–	–

Note:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

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

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

(A) On 25 January 2008, 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.

Property Management Services

Service providing party (Note 1)	Service accepting party	Contract date	Contract period	Property	Contract sum (RMB)
(i) Langfang Elephant Club Property Management Company Limited ("Elephant Club Management")	Langfang Xinao Gas Company Limited	1.1.2008	3 years	Office building in Langfang city	1,400,000
(ii) Langfang Elephant Club Property Services Company Limited ("Elephant Club Services")	Xinao Gas Development Company Limited	1.1.2008	3 years	Office building in Langfang city	570,000
(iii) Elephant Club Services	Langfang Xinao Gas Company Limited	1.4.2008	33 months	Gas processing station in Langfang city	420,000
(iv) Elephant Club Management	Xinao (China) Gas Development Company Limited	1.10.2008	1.25 years	Office building in Langfang city	399,000
(v) Elephant Club Services	Langfang Branch, Xinao (China) Gas Development Company Limited	1.1.2009	6 months	Office building in Langfang city	560,000
(vi) Elephant Club Services	Langfang Xinao Gas Equipment Company Limited	1.4.2008	2.75 years	Office building in Langfang city	248,000
(vii) Elephant Club Management	Xinao Energy Logistics Limited	1.1.2009	1 year	Office building in Langfang city	230,000
(viii) Elephant Club Services	Beijing Xinao Huading Trading Company Limited	1.1.2009	1 year	Office building in Langfang city	263,000
(ix) Elephant Club Services	Xinao Energy Trading Limited	1.1.2009	1 year	Office building in Langfang city	230,000
					4,320,000

(B) On 25 January 2008, 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.

Property Leasing Services

Service providing party	Service accepting party	Contract date	Contract period	Property	Contract sum (RMB)
(i) Langfang Xinao Gas Company Limited	Xinao Group Company Limited (note 1)	1.1.2008	3 years	Office building in Langfang city	1,475,000 (including RMB436,000 management fee)
(ii) Xinao Group Company Limited (note 1)	Xinao Gas Development Company Limited	1.1.2008	3 years	Office building in Langfang city	2,596,000
					4,071,000

(C) On 25 January 2008, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies has agreed to provide the Group with supporting services, including but not limited to employees training, catering services, information technology support and maintenance, legal and administrative services.

Supporting Services

Service providing party (Note 1)	Service accepting party	Contract date	Services	Contract sum (RMB)
• Langfang Tongcheng Vehicle Services Company Limited • Xinao Group Elephant Club Hotel Company Limited • Xinao Petroleum and Gas Refuelling Stations of Langfang City Gas Company Limited • Elephant Club Services • Langfang Xinao Property Management Company Limited • Xinao Group Company Limited • Xinao MDT Technology Company Limited • Bita E-commerce Company Limited	Subsidiaries under Xinao Gas Holdings Limited	2008	• Transportation services • Hotel services • Vehicle gasoline and gas refuelling stations • Catering services • Repair and maintenance services • Cultural services • Provision of expert • Sharing services	22,071,000

(D) On 25 January 2008, the Group and the Wang Family Companies entered into an agreement, whereby the Group has agreed to purchase dimethyl ether ("DME") manufactured and/or sold by Xinneng Energy (together with its subsidiaries and associates) ("Xinneng Group").

Purchase of DME

Seller (Note 1)	**Buyer**	**Contract date**	**Products**	**Contract sum** (RMB)
• Xinneng (Bengbu) Energy Company Limited • Xinneng (Zhangjiagang) Energy Company Limited	• Xinao Energy Trading Company Limited • Huaian Xinao Gas Development Company Limited • Bengbu Xinao Clean Energy Development Company Limited	2008	DME	12,263,000

(E) On 18 February 2009, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies agree to provide maritime transportation services to the Group for the transportation of energy including but not limited to liquefied petroleum gas, compressed natural gas and liquefied natural gas.

Maritime Transportation Services

Service providing party (Note 1)	**Service accepting party**	**Service**	**Contract sum** (RMB)
(i) Xinao Maritime Transportation Company Limited	Xinao Energy Trading Company Limited	Transportation of energy	15,264,000
(ii) Xinao (Dalian) Energy Shipping Company Limited	Xinao Energy Trading Company Limited	Transportation of energy	3,610,000
			18,874,000

Pursuant to Rule 14A.38 of the Listing Rules, the board of Directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported the 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.

Exempted Connected Transactions

(A) Gas Connection Service

Service providing party	Service accepting party (Note 1)	Service	Contract sum (RMB)
(i) Xinao Gas Development Company Limited	Langfang Xinao Property Development Company Limited	Gas connection for residential and commercial/industrial ("C/I") customers	1,250,000
(ii) Bengbu Xinao Gas Company Limited	Bengbu Xinao Property Company Limited	Gas connection for residential customers	8,000
(iii) Xinao Gas Development Company Limited	ENN Solar Energy Company Limited	Gas connection for industrial customers	4,261,000
			5,519,000

(B) Construction Service

Service providing party	Service accepting party	Service	Contract sum (RMB)
Shantou City Chenghai Gas Construction Company Limited (note 2)	Shantou Xinao Gas Company Limited	Construction of pipeline	1,860,000

(C) Loan Advance

Lending party	Borrowing party	Contract date	Contract Period	Contract sum (RMB)
Zhanjiang Xinao Gas Company Limited	Zhanjiang Gas Group Company Limited (note 2)	22.07.2008	–	979,000

(D) Property Leasing Service

Service providing party (Note 2)	**Service accepting party**	**Contract date**	**Contract period**	**Property**	**Contract sum** (RMB)
(i) Haining City Mintai Coal Gas Company Limited	Haining Xinao Gas Company Limited	–	–	Office building in Haining City	76,000
(ii) Changsha City Gas Industry Company Limited	Changsha Xinao Gas Company Limited	1.1.2009	1 year	Office building, street store and warehouse in Changsha City	1,276,000
(iii) Haining City Wantong Gas Company Limited	Haining Xinao Gas Company Limited	1.1.2008	–	Canteen and land parcel in Haining City	114,000
(iv) Nanan City Trading, Industrial and Agricultural Investment Management Company Limited	Nanan City Gas Company Limited	1.2.2009	3 years	Office building in Nanan City	30,000
					1,496,000

(E) Land Leasing

Lessor (Note 2)	**Lessee**	**Contract date**	**Contract period**	**Property**	**Contract sum** (RMB)
(i) Sinopec Group Shijiazhuang Petroleum Company Limited	Shijiazhuang Xinao Vehicle Gas Company Limited	1.1.2009	1 year	Land parcel on which gas refuelling station is located	1,080,000
(ii) Yantai City Mouping District Fengxin Fuel Company Limited	Yantai Mouping Xinao Natural Gas Company Limited	1.1.2009	28 years	Land parcel on which gas refuelling station is located	300,000
(iii) Bengbu City Investment Holdings Limited	Bengbu Xinao Gas Development Company Limited	1.1.2009	4 years	Land parcel on which gas refuelling station is located	192,000
					1,572,000

(F) Transportation Service

Service providing party	**Service accepting party**	**Service**	**Contract sum** (RMB)
Tongliao City Rixin Natural Gas Company Limited (note 2)	Xinao Energy Logistics Limited	Transportation of energy	920,000

(G) Interest Payment

Payer (Note 2)	**Payee**	**Transaction**	**Contract sum** (RMB)
(i) Shijiazhuang Gas Group Company Limited	Shijiazhuang Xinao Gas Company Limited	Interest payment	133,000
(ii) Zhanjiang Gas Group Company Limited	Zhanjiang Xinao Gas Company Limited	Interest payment	417,000
			550,000

(H) Purchase of Vehicles

Seller	**Buyer**	**Transaction**	**Contract sum** (RMB)
Langfang Xinao Tongcheng Drivers Training School Company Limited (Note 1)	• Huludao Xinao Gas Development Company Limited	Purchase of vehicles	30,000
	• Huludao Xinao Gas Company Limited		30,000
	• Liaocheng Xinao Gas Company Limited		60,000
			120,000

(I) Purchase of materials

Seller (Note 1)	**Buyer**	**Transaction**	**Contract sum** (RMB)
(i) Bita E-commerce Company Limited	Langfang Xinao Gas Equipment Company Limited	Purchase of materials	11,000
(ii) Xinao Group Company Limited	Xinao (China) Gas Investment Company Limited	Purchase of materials	25,000
			36,000

Notes:

1. Wang Family Companies 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 during the year.
2. 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. 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.

Events after the Reporting Period

Details of significant events occurring after the reporting period are set out in Note 52 to the Consolidated Financial Statements.

Convertible Securities, Options, Warrants or Similar Rights

Other than the share options as set out in the section headed "Directors' rights to acquire shares" and the details of share options disclosed in Note 43 to the Consolidated Financial Statements, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2009.

Major Customers and Suppliers

Both the percentage of the purchases attributable from the Group's five largest suppliers and the percentage of the revenue attributable from the Group's five largest customers were less than 30% during the year.

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.

Disclosure of Information on Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information on Directors are as follows:

1. With effect from 1 January 2009, the annual salaries and allowance, among the emolument items, of Mr. Cheng Chak Ngok, the Executive Director, Financial Controller and Company Secretary of the Company, has been adjusted from HK$720,000 to HK$936,000.

2. With effect from 4 November 2009, Mr. Wang Guangtian, the Independent Non-executive Director of the Company, has been appointed by China Oil And Gas Group Limited (stock code: 603) as an independent non-executive director of that company.

3. With effect from 11 January 2010, Mr. Liang Zhiwei, the Executive Director of the Company, has resigned from the position of Director of Strategic Performance Management of the Company. He remains as an Executive Director of the Company.

4. With effect from 13 August 2009, Ms. Zhai Xiaoqin, the Executive Director of the Company, has resigned from the position of Chairman of the Supervisory Committee of the Company. She remains as an Executive Director of the Company.

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 control (including financial control, operational control, compliance control, risk management function and the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, as well as their training programmes and budget) 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 2009. Five Audit Committee meetings were held during the financial year.

Remuneration Committee

The Company's Remuneration Committee was established on 31 December 2004. As as the date of this report, the Remuneration Committee is composed of one executive Director, namely, Mr. Yu Jianchao, 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. One Remuneration Committee meeting was held during the financial year.

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, except a deviation from the Code Provision E.1.2. where the chairman of the Board was unable to attend the annual general meeting of the Company held on 26 May 2009 due to unexpected business commitments. Alternatively, Mr. Cheng Chak Ngok, the Executive Director and Company Secretary of the Company attended the said annual general meeting. Details of compliance are set out in the Corporate Governance Report on pages 50 to 73 of the Annual Report.

The Model Code for Securities Transactions by Directors of Listed Issuers

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 as contained in Appendix 10 to the Listing Rules. Specific enquiries have been made with all Directors who have confirmed that they 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, 31 March 2010

Corporate Governance Report

The Company is committed to upholding good corporate governance practices. The corporate governance principles of the Company emphasise on an effective board, prudent internal and risk control, transparency and quality disclosure and accountability to shareholders. 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 2007 "Global Chinese Business 1000"
- 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 Asset

- Year 2009 "China's Most Promising Companies 2009"

The Hong Kong Management Association

- Year 2005 "Honourable Mention, The Best Annual Reports Awards"
- Year 2009 "Citation for Design, The Best Annual Reports Awards"

International ARC Awards

- Year 2003, 2006, 2007 "Honors, Overall Annual Report"
- Year 2008 "Gold, Overall Annual Report: Gas Distribution, Transportation and Transmission"

Annual International Galaxy Awards

- Year 2008 "Silver, Annual Reports: Energy"
- Year 2009 "Gold, Annual Reports: Energy"

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”), except a deviation from Code Provision E.1.2 with explanation set out herein. In addition, the Company has also further complied with those recommended best practices in the CG Code as set out herein.

The Group continues to maintain and optimise the system of internal control and risk management 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.

To promote risk management along the operation chain, the Group’s risk management committee has adopted and implemented a risk management model by phase-in approach in four subsidiaries of the Company in 2007. A reward-and-punishment scheme is also in place to ensure the effective implementation of the model. The risk management model helps the subsidiaries to manage the risks actively. In 2008, the risk management model has been further promoted and implemented in 16 subsidiaries. To carry out risk monitoring and identifying work in full, the Group has developed a risk management database and has continued its efforts in promoting the risk management model which was being further implemented in an additional of 14 subsidiaries during 2009.

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 2009, the Group has continued 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 has also been 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 2009, a total of 10 Board meetings (including four regular Board meetings) were held. Details of Directors' attendance record of Board meetings and Board Committees meetings in 2009 are as follows:

Board meeting

Director	*Attendance*	
Mr. Wang Yusuo	4/10	(2/4)*
Mr. Chen Jiacheng (resigned with effect from 31 March 2010)	6/10	(4/4)*
Mr. Zhao Jinfeng	6/10	(3/4)*
Mr. Yu Jianchao	9/10	(4/4)*
Mr. Cheung Yip Sang	8/10	(4/4)*
Mr. Cheng Chak Ngok	10/10	(4/4)*
Mr. Liang Zhiwei	8/10	(4/4)*
Ms. Zhai Xiaoqin	8/10	(4/4)*
Ms. Zhao Baoju	6/10	(4/4)*
Mr. Jin Yongsheng	8/10	(4/4)*
Mr. Wang Guangtian	8/10	(4/4)*
Ms. Yien Yu Yu, Catherine	9/10	(4/4)*
Mr. Kong Chung Kau	10/10	(4/4)*

* *regular Board meetings*

Audit Committee meeting

Committee member	*Attendance*
Mr. Kong Chung Kau	5/5
Mr. Wang Guangtian	2/5
Ms. Yien Yu Yu, Catherine	5/5

Remuneration Committee meeting

Committee member	*Attendance*
Mr. Yu Jianchao	1/1
Mr. Wang Guangtian	1/1
Ms. Yien Yu Yu, Catherine	1/1
Mr. Kong Chung Kau	1/1

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

A.1 The Board (continued)

Code Provisions	Compliance	Details of Compliance
• 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 despatched to the Directors.
• At least 14 days notice given to all directors prior to a regular board meeting to ensure that opportunity to attend is given.	Yes	• Notice of a regular Board meeting is given to all Directors not less than 14 days prior to such meeting.
• Access to advice and services of the company secretary.	Yes	• The company secretary of the Company (the "Company Secretary") is responsible for company secretarial matters of the Group, including Board procedures and corporate governance practices compliance. • In addition, the Company retains legal advisers and company secretarial services provider to provide legal advice and secretarial services to the Company. • All Directors have access to the services and advice of the Company Secretary.
• Minutes of meetings kept by company secretary and available for inspection.	Yes	• All Board and Board Committees minutes and records are kept by the Company Secretary and will be available for inspection in Hong Kong 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.

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

A.1 The Board (continued)

Code Provisions	Compliance	Details of Compliance
• 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.

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 two Board Committees, being the Audit Committee and the Remuneration Committee. All Board Committees adopt broadly the same principles and procedures applicable to the Board as stated in this Section A.1 hereinabove.

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

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. Chen Jiacheng, 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. Chen Jiacheng has no other relationship with Mr. Wang Yusuo. • As disclosed in the announcement published by the Company on 31 March 2010, Mr. Chen Jiacheng resigned as an executive director and chief executive officer of the Company with effect from the same date. He had also ceased to be the director or chief executive officer in other members of the Group and all other companies owned and controlled by Mr. Wang Yusuo and/or his family.
• 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 of and access to 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:		
• Ensure establishment of good corporate governance practices and procedures.	Yes	• The Chairman plays a key role in ensuring good corporate governance practices and encouraging active participation and constructive contribution and relations of the Directors.
• Encourage directors to make a full and active contribution to board affairs.		• 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 Directors or relevant 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.
• Facilitate the effective contribution of non-executive directors and ensure constructive relations between executive and non-executive directors.		• Any Directors could access to the Company Secretary anytime to express their opinion on the Company's business and require to hold a Board meeting anytime.
• Ensure effective communication with shareholders and views of shareholders are communicated to the board as a whole.		• The Company has set up an investor relations department since 2002. Any shareholders could communicate with the Company through emails, letters, phone calls or meetings etc. Shareholder's view would be passed to the Board for discussion according to its importance.

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 seven executive Directors, two non-executive Directors and three independent non-executive Directors. As at 31 December 2009, the Board members were as follows:

Mr. Wang Yusuo	(Chairman and Executive Director)
Mr. Chen Jiacheng	(CEO and Executive Director) (resigned with effect from 31 March 2010)
Mr. Zhao Jinfeng	(Executive Director)
Mr. Yu Jianchao	(Executive Director)
Mr. Cheung Yip Sang	(Executive Director) (appointed as the CEO with effect from 31 March 2010)
Mr. Cheng Chak Ngok	(Executive Director)
Mr. Liang Zhiwei	(Executive Director)
Ms. Zhai Xiaoqin	(Executive Director)
Ms. Zhao Baoju	(Non-executive Director)
Mr. Jin Yongsheng	(Non-executive Director)
Mr. Wang Guangtian	(Independent Non-executive Director)
Ms. Yien Yu Yu, Catherine	(Independent Non-executive Director)
Mr. Kong Chung Kau	(Independent Non-executive Director)

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. The Board believes that the existing Board composition creates an adequate balance of skills and experience which is appropriate for the requirements of the business of the Company.

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 2009, 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 2008 and the interim results of the Group for the 6 months period ended 30 June 2009;
3. considered and approved the issue of new shares pursuant to the exercise of share options;
4. reviewed the effectiveness of the system of internal control and risk management of the Group;
5. reviewed general mandates to issue and repurchase shares of the Company; and
6. reviewed connected transactions of the Group.

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

A.3 Board composition (continued)

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, CEO, 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.

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.

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

*A.4 Appointment, re-election and removal **(continued)***

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. • Provide 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 except Mr. Wang Guangtian who will retire by rotation on the forthcoming annual general meeting. The Company intends to further appoint Mr. Wang Guangtian as an independent non-executive Director. To comply with this recommended best practice, the Company will seek shareholders' approval by a separate resolution on the said meeting and set out in the circular to shareholders accompanying the notice of such meeting the reasons why the Board believes Mr. Wang Guangtian will continue to be independent and why he should be re-elected. • 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 independence of such Directors will be disclosed (where appropriate).

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 to ensure that 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.

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

A.5 Responsibilities of directors (continued)

Code Provisions	Compliance	Details of Compliance
• 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 give comments at Board meetings. • In relation to each connected transaction or continuing connected transaction of the Group 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.)
• Directors must comply with their obligations under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules regarding their securities transactions.	Yes	• The Company has adopted the Model Code as the code of conduct regarding securities transaction by the Directors of the Company. Each Director is specifically required to confirm with the Company that he/she has complied with the required standard set out in the Model Code at least twice each year and there has not been any non-compliance by any Director in this respect.
• 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 written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealing in securities of the Company.

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

A.5 Responsibilities of directors (continued)

Recommended Best Practice	Compliance	Details of Compliance
• Directors should participate in a programme of continuous professional development.	Yes	• In 2009, the Company organised 9 internal training programmes and seminars for the Directors and the senior management on various matters relating to enhancement of management skills, execution of strategies, management of performance and appraisal, financial expertise, director's duties and skills for discharging such duties. 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 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. Yu Jianchao	(Executive Director 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 remuneration packages of all executive Directors and senior management;
3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
4. to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
6. to make recommendations to the Board on the remuneration for non-executive Directors;
7. to ensure that no Director or any of his associates is involved in deciding his own remuneration;
8. to consult the Chairman and/or the CEO about their proposals relating to the remuneration of executive Directors and have access to professional advice if considered necessary; and
9. to report to the Board.

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

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

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

Code Provisions	Compliance	Details of Compliance
• Remuneration committee should be established with specific written terms of reference (containing the minimum prescribed details as set out in paragraph B.1.3 of Appendix 14 to the Listing Rules) and should be available on request.	Yes	• The Company has established a Remuneration Committee with written 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 corresponding 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 announcements and other financial disclosures/reports under regulatory requirements. In addition, the Audit Committee has been established to monitor the financial reporting process and the integrity of financial statements of the Company. • The Company's annual report was awarded by independent association as "Gold, Annual Reports: Energy".

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 2009.
• Board's annual review should, in particular, consider the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget.	Yes	• The Board has included in its annual review the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget for the year under review.

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. • The Board will also consider the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. • The Group has implemented ERP and installed SAP, which served to recognise, review and improve all control points in our operational and financial system on-goingly. SAP also enhances the financial reporting system by providing more accurate and timely information. • The Company has implemented a workflow management system developed by IBM jointly with Digital China Holdings Limited. Under the system, authorised users can access to and share information across the Group, which in turn helps enhancing the internal control system. On the other hand, active risk management model has been promoted and implemented in subsidiaries of the Group. Such model encourages the subsidiaries to identify and assess risks actively in order to achieve effective control over these risks. • 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. • The Company has designed a customised balanced score card for each of its subsidiaries after taken into account the resources and customer nature of that subsidiary. As such, the achievement of major business targets and financial indicators in each subsidiary will be monitored monthly. The progress on the implementation of operational measures which have significant impact on its profitability will also be assessed. In case any problem arises, new operational policies will be formulated in a timely manner. • The risk management team will evaluate the operational risks of the enterprises and formulate action plans for managing significant risks. • 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. Kong Chung Kau, CPA	(Independent non-executive Director and chairman of the Audit Committee)
Mr. Wang Guangtian	(Independent non-executive Director)
Ms. Yien Yu Yu, Catherine, CFA	(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 therein.

The Audit Committee met 5 times during the year under review to approve the amendments to its terms of reference, consider the interim and annual results of the Group and discuss with the auditors the impact of any change of accounting policies, the scope of work regarding the annual audit and interim review, the supply of non-audit services 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 2009, 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 2009	
• Audit fee paid – Interim review	RMB812,000
• Audit fee payable – Annual audit (subject to final agreement with the auditors)	RMB3,844,000
Non-audit services for the year 2009	
• Fee paid for provision of cost management services of the Group and other miscellaneous services	RMB3,000,000

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

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

C.3 Audit committee (continued)

Code Provisions	Compliance	Details of Compliance
• Minutes should be kept by a duly appointed secretary and should be sent to all committee members within a reasonable time.	Yes	• Audit Committee minutes and papers are kept by the Company Secretary. Draft Audit Committee minutes is circulated to all the committee members for review and comment and final version of the minutes will be sent to all the committee members for record, as soon as practicable after the relevant Audit Committee meeting.
• A former partner of the existing auditors should not sit on the Audit Committee.	Yes	• None of the Audit Committee members is a former partner of the external auditors of the Group.
• The terms of reference of audit committee should contain the minimum prescribed details in paragraph C.3.3 of Appendix 14 to the Listing Rules and should be made available on request.	Yes	• The Company has established an Audit Committee with terms of reference which meet the requirements as set out in paragraph C.3.3 of Appendix 14 to the Listing Rules. • The terms of reference of the Audit Committee will be updated from time to time to incorporate any relevant amendments made to Appendix 14 of the Listing Rules (if any), and a copy thereof is posted on the Company's website and will be made 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 (i) a 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. • Upon expiry, all such service contracts and letters of appointment will continue thereafter based on the original terms and conditions unless and until terminated by either party by giving prior written notice. • No new service contracts and letters of appointment will be entered into by the Company separately for the purpose of renewing the existing ones.

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.

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

1. Audit Committee; and

2. Remuneration Committee.

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

Code Provisions	**Compliance**	**Details of Compliance**
• Clear terms of reference to enable proper discharge of committee functions.	Yes	• The Company currently has two Board Committees, being the Audit Committee and the Remuneration 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 are posted on the Company's website and 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.

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

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 general 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.	No	• In the year under review, the Company held one annual general meeting. • The Chairman was not able to attend the said annual general meeting in 2009 due to business trip. Alternatively, Mr. Cheng Chak Ngok, the executive Director and Company Secretary of the Company, attended the said annual general meeting. • The Chairman and a member of the Audit Committee who were also members of the Remuneration Committee attended the said annual general meeting in 2009.
• 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 2009, there was no general meeting for approving a connected transaction or any other transaction that is subject to independent shareholders' approval.
• Notice to shareholders should be sent in the case of annual general meeting at least 20 clear business days before the meeting and be sent at least 10 clear business days in the case of all other general meetings.	Yes	• The notice of 2009 annual general meeting was sent to shareholders on 16 April 2009, 26 clear business days before the meeting which was held on 26 May 2009. • There was no other general meeting in 2009.

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

E.2 Voting by poll

Code Principle

The issuer should ensure that shareholders are familiar with the detailed procedures for conducting a poll.

Code Provisions	Compliance	Details of Compliance
• Chairman of meeting should adequately explain the detailed poll procedures and answer questions from shareholders regarding voting by poll at the commencement of the meeting.	Yes	• At the annual general meeting held in the year under review, the chairman of the meeting explained the poll procedures in details at the commencement of the meeting. No question regarding voting by poll was raised by shareholders at 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 of the financial year ended 31 December 2009, an annual general meeting of the Company will be held on 30 June 2010 and it is currently expected that interim results for the six months ended 30 June 2010 will be announced in August 2010. Notice of the forthcoming annual general meeting will be dispatched to shareholders at least 20 clear business days before the meeting.

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.

Additional Corporate Governance Information *(continued)*

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 matters relating to investor relations. In the year under review, the executive Directors and senior management of the Company participated in 10 international investors' conferences, as well as 2 international road shows covering Hong Kong, Japan, Singapore, Europe and the US, to communicate with existing shareholders and the investment community in respect of the Group's latest results, prospects and development strategies. In addition, the Company also maintains 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

Independent Auditor's Report

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 75 to 158, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2009 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
31 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Revenue	7	**8,412,880**	8,265,508
Cost of sales		**(5,874,980)**	(6,018,967)
Gross profit		**2,537,900**	2,246,541
Other income	8	**104,586**	213,882
Selling expenses		**(159,025)**	(130,723)
Administrative expenses		**(857,047)**	(1,040,571)
Other gains and losses	9	**(132,642)**	22,419
Share of results of associates		**5,066**	7,347
Share of results of jointly controlled entities		**210,719**	192,828
Finance costs	10	**(328,449)**	(381,044)
Profit before taxation	11	**1,381,108**	1,130,679
Taxation	13	**(304,459)**	(259,955)
Profit for the year		**1,076,649**	870,724
Other comprehensive income:			
Gain on revaluation of properties		**37,914**	5,492
Income tax relating to other comprehensive income		**(8,964)**	(692)
Other comprehensive income for the year (net of tax)		**28,950**	4,800
Total comprehensive income for the year		**1,105,599**	875,524
Profit for the year attributable to:			
Owners of the Company		**800,634**	630,705
Minority interests		**276,015**	240,019
		1,076,649	870,724
Total comprehensive income attributable to:			
Owners of the Company		**827,123**	634,830
Minority interests		**278,476**	240,694
		1,105,599	875,524

	Notes	2009	2008
Earnings per share	15		
– Basic		**77.5 cents**	62.5 cents
– Diluted		**77.2 cents**	61.4 cents

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	**2009 RMB'000**	2008 RMB'000
Non-current assets			
Property, plant and equipment	16	**9,092,059**	7,855,387
Prepaid lease payments	17	**528,909**	472,228
Investment properties	18	**72,625**	63,005
Goodwill	19	**171,862**	168,926
Intangible assets	20	**449,773**	464,712
Interests in associates	21	**323,880**	292,483
Interests in jointly controlled entities	22	**1,015,641**	757,620
Available-for-sale financial assets	23	**14,056**	13,956
Loan receivable	24	**9,000**	12,000
Other receivable	27	**30,581**	–
Amounts due from associates	29	**71,795**	–
Amounts due from jointly controlled entities	25	**26,644**	20,000
Amounts due from related companies	30	**34,582**	–
Deferred tax assets	42	**33,678**	–
Deposits paid for investments in subsidiaries		**62,200**	96,228
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights		**10,010**	3,800
Restricted bank deposits	31	**2,200**	–
		11,949,495	10,220,345
Current assets			
Inventories	26	**286,046**	254,060
Trade and other receivables	27	**1,208,275**	1,431,087
Prepaid lease payments	17	**11,105**	9,354
Amounts due from customers for contract work	28	**241,415**	495,318
Amounts due from associates	29	**4,301**	17,630
Amounts due from jointly controlled entities	25	**155,041**	207,350
Amounts due from related companies	30	**16,684**	57,022
Restricted bank deposits	31	**118,270**	79,817
Cash and cash equivalents	32	**2,712,661**	1,725,358
		4,753,798	4,276,996
Non-current assets classified as held for sale	33	**–**	76,977
		4,753,798	4,353,973
Current liabilities			
Trade and other payables	34	**2,771,574**	2,752,280
Amounts due to customers for contract work	28	**564,898**	465,606
Amounts due to associates	29	**76,405**	46,502
Amounts due to jointly controlled entities	25	**327,826**	102,884
Amounts due to related companies	35	**21,261**	35,507
Taxation payable		**97,906**	75,932
Bank and other loans – due within one year	36	**675,796**	1,239,450
Short-term debenture	37	**808,699**	630,043
Financial guarantee liability	38	**3,383**	4,384
Deferred income – current portion	39	**16,290**	692
		5,364,038	5,353,280
Liability associated with assets classified as held for sale	33	**–**	75,000
		5,364,038	5,428,280
Net current liabilities		**(610,240)**	(1,074,307)
Total assets less current liabilities		**11,339,255**	9,146,038

	Notes	2009 RMB'000	2008 RMB'000
Capital and reserves			
Share capital	40	**109,879**	106,318
Reserves		**5,051,946**	4,149,253
Equity attributable to owners of the Company		**5,161,825**	4,255,571
Minority interests		**1,316,432**	1,185,869
Total equity		**6,478,257**	5,441,440
Non-current liabilities			
Bank and other loans – due after one year	36	**3,048,805**	2,186,720
Guaranteed notes	41	**1,351,209**	1,346,927
Deferred tax liabilities	42	**180,859**	150,873
Deferred income – non-current portion	39	**280,125**	20,078
		4,860,998	3,704,598
		11,339,255	9,146,038

The consolidated financial statements on pages 75 to 158 were approved and authorised for issue by the Board of Directors on 31 March 2010 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 2009

	Attributable to owners of the Company										
	Share capital RMB'000 (Note 40)	Share premium RMB'000	Special reserve RMB'000 (Note a)	Share option reserve RMB'000	Statutory surplus reserve fund RMB'000 (Note b)	Property revaluation reserve RMB'000	Designated safety fund RMB'000 (Note d)	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	106,318	1,893,039	(18,374)	53,878	157,891	24,688	–	1,518,107	3,735,547	925,111	4,660,658
Profit for the year	–	–	–	–	–	–	–	630,705	630,705	240,019	870,724
Other comprehensive income for the year	–	–	–	–	–	4,125	–	–	4,125	675	4,800
Total comprehensive income for the year	–	–	–	–	–	4,125	–	630,705	634,830	240,694	875,524
Recognition of equity settled share-based payment (Note 43)	–	–	–	4,330	–	–	–	–	4,330	–	4,330
Acquisition of businesses (Note 44(b))	–	–	–	–	–	–	–	–	–	20,257	20,257
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	129,307	129,307
Deemed acquisition of additional interest in a subsidiary (note c)	–	–	–	–	–	–	–	–	–	(1,294)	(1,294)
Dividend appropriation	–	–	–	–	–	–	–	(119,136)	(119,136)	–	(119,136)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(128,206)	(128,206)
Transfer to statutory surplus reserve fund	–	–	–	–	68,797	–	–	(68,797)	–	–	–
At 31 December 2008	106,318	1,893,039	(18,374)	58,208	226,688	28,813	–	1,960,879	4,255,571	1,185,869	5,441,440

	Share capital RMB'000 (Note 40)	Share premium RMB'000	Special reserve RMB'000 (Note a)	Share option reserve RMB'000	Statutory surplus reserve fund RMB'000 (Note b)	Property revaluation reserve RMB'000	Designated safety fund RMB'000 (Note d)	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
	Attributable to owners of the Company										
Profit for the year	–	–	–	–	–	–	–	800,634	800,634	276,015	1,076,649
Other comprehensive income for the year	–	–	–	–	–	26,489	–	–	26,489	2,461	28,950
Total comprehensive income for the year	–	–	–	–	–	26,489	–	800,634	827,123	278,476	1,105,599
Issue of shares on exercise of share options (Note 43)	3,561	291,422	–	(58,208)	–	–	–	–	236,775	–	236,775
Disposal of a subsidiary (Note 45)	–	–	–	–	–	–	–	–	–	(1,581)	(1,581)
Acquisition of a business (Note 44(a))	–	–	–	–	–	–	–	–	–	2,107	2,107
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	3,248	3,248
Dividend appropriation	–	–	–	–	–	–	–	(157,644)	(157,644)	–	(157,644)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(151,687)	(151,687)
Transfer to statutory surplus reserve fund	–	–	–	–	80,752	–	–	(80,752)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	–	14,176	(14,176)	–	–	–
At 31 December 2009	109,879	2,184,461	(18,374)	–	307,440	55,302	14,176	2,508,941	5,161,825	1,316,432	6,478,257

Notes:

a. The amount represented the difference between the paid-up capital of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition amounting to RMB1,167,000 during the group restructuring carried out for the purpose of initial public offering of the Company's shares in 2001 and the difference between the fair values and the carrying values of the underlying assets and liabilities attributable to the additional interests in a subsidiary amounting to RMB19,541,000 in 2007. The difference between the fair value and the carrying amount of the net assets attributable to the 20% additional interest acquired by the subsidiary of the Company amounting to approximately RMB19,541,000 was recognised in the special reserve.

b. Except for sino-foreign equity joint ventures, according to relevant laws and regulations of the People's Republic of China (the "PRC"), an entity established under the PRC Companies Law is required to make an appropriation at 10% of the profit for the year, prepared in accordance with the PRC accounting standards, to the statutory surplus reserve fund until the balance reached 50% of the registered capital of that entity. The reserve appropriated can only make up the losses or use to increase the registered capital of that entity and is not distributable. The appropriation of profit for the year to the statutory surplus reserve fund of the subsidiaries of the Company established under PRC Companies Law amounted to RMB80,752,000 (2008: RMB68,797,000).

c. During the year ended 31 December 2008, 石家莊新奧燃氣有限公司, a 60% owned subsidiary of the Company, disposed of its 65% equity interest held in its subsidiary, 石家莊新奧車用燃氣有限公司 to a wholly-owned subsidiary of the Company, 新奧燃氣發展有限公司. Upon the completion of the transaction, the effective interest in 石家莊新奧車用燃氣有限公司 held by the Group increased from 39% to 65% and gain on deemed acquisition of additional interest in a subsidiary amounting to RMB1,294,000 was recognised in the consolidated statement of comprehensive income for year ended 31 December 2008.

d. Pursuant to relevant PRC regulation, the Group is required to transfer 1.5% on revenue generated from transportation of gas or other dangerous chemical into a designated fund. The fund will be used for installation and repair and maintenance of safety facilities.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Operating activities			
Profit before taxation		**1,381,108**	1,130,679
Adjustments for:			
Share of results of associates		**(5,066)**	(7,347)
Share of results of jointly controlled entities		**(210,719)**	(192,828)
Gain on deemed acquisition of additional interest in a subsidiary		**–**	(1,294)
Discount on acquisition of a subsidiary	44(b)(ii)	**–**	(663)
Exchange gain of guaranteed notes		**(1,280)**	(94,000)
Impairment of available-for-sale financial assets		**–**	18
Impairment loss on property, plant and equipment		**12,801**	–
Loss (gain) on disposal of property, plant and equipment		**6,102**	(10,880)
Gain on disposal of prepaid lease payments		**(10,752)**	(5,648)
Loss on disposal of a subsidiary	45	**1,571**	–
Loss on deregistration of jointly controlled entities		**7,967**	–
Gain on disposal of an associate		**(5,023)**	–
(Increase) decrease in fair value of investment properties		**(9,620)**	13,022
Share-based payment expenses		**–**	4,330
Revaluation deficit (surplus) of property, plant and equipment		**9,344**	(9,645)
Depreciation of property, plant and equipment		**357,468**	276,356
Impairment loss (reversal of impairment loss) on trade and other receivables		**57,106**	(14.934)
Write off other receivable		**54,258**	–
Fair value adjustment on interest-free advances to minority shareholder		**7,350**	–
Fair value adjustment on other receivables		**1,538**	–
Amortisation of intangible assets		**22,939**	27,543
Release of prepaid lease payments		**10,293**	8,966
Financial guarantee income		**(1,001)**	(1,696)
Interest income		**(20,759)**	(30,265)
Interest expenses		**328,449**	381,044
Deferred income released to profit or loss		**(11,104)**	–
Operating cash flows before movements in working capital		**1,982,970**	1,472,758
Increase in inventories		**(30,857)**	(6,458)
Decrease (increase) in trade and other receivables		**33,398**	(258,900)
Decrease (increase) in amounts due from customers for contract work		**253,903**	(159,408)
(Increase) decrease in amounts due from associates		**(5,974)**	168,955
Increase in amounts due from jointly controlled entities		**(818)**	(69,631)
Increase in amounts due from related companies		**(4,208)**	(13,749)
Increase in trade and other payables		**116,386**	356,455
Increase in amounts due to customers for contract work		**99,292**	159,962
Increase in amounts due to jointly controlled entities		**48,156**	72,650
Increase (decrease) in amounts due to associates		**1,959**	(69,909)
(Decrease) increase in amounts due to related companies		**(14,527)**	5,728
Deferred income received		**286,749**	20,770
Cash generated from operating activities		**2,766,429**	1,679,223
Interest received		**20,759**	30,265
Interest paid		**(285,222)**	(271,867)
PRC enterprise income tax paid		**(295,141)**	(185,704)
Net cash from operating activities		**2,206,825**	1,251,917

	Notes	2009 RMB'000	2008 RMB'000
Investing activities			
Dividend received from jointly controlled entities		**80,936**	82,458
Dividend received from associates		**4,415**	1,981
Purchase of property, plant and equipment		**(1,541,353)**	(1,186,068)
Deposit paid for acquisition of operation rights		**(3,328)**	(1,000)
Deposit paid for acquisition of prepaid lease payment		**(4,682)**	(2,800)
Proceed received/ deposit received for disposal of an associate	33	**7,000**	75,000
Increase in prepaid lease payments		**(85,483)**	(65,249)
Acquisition of businesses	44	**(21,553)**	(36,788)
Disposal of a subsidiary	45	**775**	–
Deposits paid for investments in subsidiaries		**(3,200)**	(72,095)
Refund for deposits paid for investments in subsidiaries		**13,019**	–
Investments in jointly controlled entities		**(131,579)**	(150,886)
Investments in associates		**(22,500)**	(18,000)
Acquisition of intangible asset		**(8,000)**	(2,000)
Proceeds from disposal of property, plant and equipment		**38,996**	41,016
Proceeds from disposal of prepaid lease payments		**27,510**	26,865
Increase in restricted bank deposits		**(40,653)**	(79,817)
Decrease (increase) in loan receivable		**3,000**	(15,000)
Net cash used in investing activities		**(1,686,680)**	(1,402,383)
Financing activities			
Interest paid on guaranteed notes		**(100,874)**	(103,478)
Proceeds from shares issued on exercise of share options		**236,775**	–
Proceed from issuance of short-term debenture		**800,000**	600,000
Repayment of short-term debenture		**(600,000)**	(400,000)
Contribution from minority shareholders		**3,248**	129,307
Dividends paid to minority shareholders		**(151,687)**	(128,206)
Dividends paid to shareholders		**(157,644)**	(119,136)
Deferred consideration for acquisition of businesses		**(94,553)**	–
New bank loans raised		**3,598,680**	1,677,408
Repayment of bank loans		**(3,300,249)**	(1,473,530)
Net amount advance (to) from associates		**39,206**	–
Net amount advance (to) from jointly controlled entitles		**191,361**	–
Net amount advance (to) from related companies		**2,895**	–
Net cash from financing activities		**467,158**	182,365
Net increase in cash and cash equivalents		**987,303**	31,899
Cash and cash equivalents at beginning of the year		**1,725,358**	1,693,459
Cash and cash equivalents at end of the year		**2,712,661**	1,725,358

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. General

The Company is an exempted 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 Company'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 53.

2. Basis of Preparation of Consolidated Financial Statements

In preparing the consolidated financial statements, the directors of the company (the "Directors") have given careful consideration of the Company and its subsidiaries (collectively referred to as the "Group") in light of its net current liabilities of approximately RMB610,240,000 as at 31 December 2009. Having considered the secured credit facilities of approximately RMB1,030,000,000 which remains unutilised at the date of approval of the consolidated financial statements, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods and accordingly, no prior period adjustment has been required. However, the adoption of the new and revised HKFRSs had affected the presentation and disclosure in the consolidated financial statements as follows:

HKAS 1 (Revised 2007) "Presentation of Financial Statements"

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 "Operating Segments"

The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, but some changes in presentation and disclosure have been made (see Note 50).

HK(IFRIC) – Int 18 "Transfer of Assets from Customers"

HK(IFRIC) – Int 18 applies when an entity receives cash from a customer for the construction or acquisition of an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

If an ongoing service is identified as part of the agreement, the period over which revenue is recognised for that service is generally determined by the terms of the agreement with the customer. If the agreement does not specify a period, the revenue is recongised over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

In the current year, certain subsidiaries of the Group received cash from its customers for the construction of the Group's main gas pipelines, the Group applied this interpretation prospectively for transfers of cash from customers received on or after 1 July 2009. The application of HK(IFRIC) – Int 18 does not have impact to the results and the financial position of the Group as the accounting policies applied by the Group prior to the application of HK(IFRIC) – Int 18 is consistent with HK(IFRIC) – Int 18.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

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

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Parties Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transation[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of *Improvements to HKFRSs* issued in 2009, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leases were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set our in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

4. Significant Accounting Policies

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.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange and by the Hong Kong Companies Ordinance.

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 where 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 statement of comprehensive income 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.

Business combinations

The acquisition of businesses 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.

Business combination achieved in stages

When a business combination involves more than one exchange transaction, each exchange transaction is treated separately by the Group, using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. Any adjustment to those fair values relating to previously held interests of the Group is credited to the revaluation reserve.

Before qualifying as a business combination, a transaction qualified as an investment in an associate was accounted for in accordance with HKAS 28 "*Investments in Associates*" using the equity method.

The fair values of the investee's identifiable net assets at the date of each earlier exchange transaction have been previously determined throughout the application of equity method.

4. Significant Accounting Policies *(continued)*

Interests in associates

An associate is an entity over which the investor 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, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"). Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, 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. Goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which 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 statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets 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.

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. Goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the jointly controlled entity. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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, profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entities.

4. Significant Accounting Policies *(continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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 in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating units, an associate or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Interest in associate is classified as held for sale when the sale is highly probable. The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting up to the date when the associate meets held for sale classification.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and 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 end of the reporting period 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.

Revenue from sale of gas and gas appliances is recognised when the goods are delivered and title has 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 provided.

Transfer of Assets from Customers

When the Group receives cash from a customer for the construction or acquisition of an item of property, plant and equipment and the Group must then use the item of property, plant and equipment to provide the customer with ongoing access to a supply of gas, the item of property, plant and equipment is recognised in accordance with HKAS *16 Property, Plant and Equipment* and the revenue (the credit resulting from the initial recognition of the item of property, plant and equipment) is recognised in accordance with HKAS 18 *Revenue*.

When an ongoing service is identified as part of the agreement, the period over which revenue is recognised for that service is generally determined by the terms of the agreement with the customer. When the agreement does not specify a period, the revenue is recongised over a period no longer than the useful life of the relevant property, plant and equipment used to provide the ongoing service.

4. Significant Accounting Policies *(continued)*

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 profit or loss 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

Operating lease payments are recognised as an expense 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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases are amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessary take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Government grants

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit scheme contribution

The retirement benefit scheme contribution charged to the consolidated statement of comprehensive income represents the Group's contribution payable to the Mandatory Provident Fund Scheme and the retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC.

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 the end of the reporting period, the Group reviews its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss 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. Significant Accounting Policies *(continued)*

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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.

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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other year, and it further excludes 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that is probable that taxable profits will be available against which those 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.

Deferred tax liabilities are recognised for taxable temporary difference associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary difference associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment other than buildings held for use in production or supply of goods or services, or for administrative purposes and construction in progress are stated at cost less subsequent accumulated depreciation and identified impairment losses.

Buildings held for use in production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position 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 end of the reporting period.

4. Significant Accounting Policies *(continued)*

Property, plant and equipment *(continued)*

Any revaluation 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 statement of comprehensive income 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 includes 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. 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 item) is included in the profit or loss in the period in which the item is derecognised.

Investment properties

Investment properties are properties 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 at their fair values using 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 statement of comprehensive income 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 (see the accounting policy in respect of impairment losses on tangible and intangible assets 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 statement of comprehensive income when the asset is derecognised.

4. Significant Accounting Policies *(continued)*

Intangible assets *(continued)*

Research and development expenditure

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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

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 completions at the end of the reporting period can be measured reliably, contract costs are charged to the consolidated statement of comprehensive income by reference to the stage of completion of the contract activity at the end of the reporting period 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 net balances are shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the net balances are shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

4. Significant Accounting Policies *(continued)*

Gas connection contracts *(continued)*

When a gas connection contract include gas supply component, revenue is recognised on a straight-line basis over the life of the connection service and gas supply period. The unearned portion of the gas connection income received is stated as deferred income in the consolidated statement of financial position.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity 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.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables (including loan receivable, trade and other receivables, amounts due from associates, amounts due from jointly controlled entities, amounts due from related companies, restricted bank deposits and cash and cash equivalents) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loan and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

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.

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 the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables and assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables, amounts due from associates, amounts due from jointly controlled entities and amounts due from related companies is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss ("FVTPL") and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to associates, amounts due to jointly controlled entities, amounts due to related companies, bank and other loans, short-term debenture and guaranteed notes are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity (continued)

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 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*".

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 in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred assets, the Group continues to recognise the financial assets and recognise a collaterised borrowing for proceeds received.

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.

5. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 4, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenue recognition of gas connection contract

Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the estimated profit derived from the contracts and 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 and profit recognised in each accounting period over the contract term.

5. Key Sources of Estimation Uncertainty *(continued)*

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

The carrying value of goodwill at 31 December 2009 amounted to RMB171,862,000 (2008: RMB168,926,000). 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. Details of the calculation of the recoverable amount are set out in Note 19.

Estimated impairment of trade and other receivables

The Group 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 or when the net present value of the receivable is less than the carrying amount of the receivable. 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 the impairment in the periods in which such estimate has been changed. At 31 December 2009, the carrying amount of trade and other receivables after deducting the impairment recognised is RMB685,609,000 (2008: RMB748,192,000). Details of movement in impairment on trade and other receivables are set out in Note 27.

6. Capital Risk Management and Financial Instruments

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern; to maintain the confidence of creditors; to sustain future development of the entities and to maximise the return to the equity holders of the entities. The capital structure of the Group consists of net debt (borrowings disclosed in Notes 36, 37 and 41, net of cash and cash equivalents) and total equity of the Group.

The Group manages its capital base through net gearing ratio. The Directors review the capital structure on a semi-annual basis. The Group has a target of net gearing ratio below 100% and will maintain the ratio within target by issue of new debts, repayment of debts, issue of new shares, repurchase of shares or payment of dividends. The Group's overall strategy remains unchanged from prior year. The gearing ratio at the end of the reporting period was as follows:

	2009 **RMB'000**	2008 RMB'000
Bank and other loans	**3,724,601**	3,426,170
Short-term debenture	**808,699**	630,043
Guaranteed notes	**1,351,209**	1,346,927
	5,884,509	5,403,140
Less: Cash and cash equivalents	**2,712,661**	1,725,358
Net debt	**3,171,848**	3,677,782
Total equity	**6,478,257**	5,441,440

6. Capital Risk Management and Financial Instruments *(continued)*

a. Capital risk management *(continued)*

	2009 %	2008 %
Net debt to total equity ratio	**49**	68

The entities comprising the Group are not subject to externally imposed capital requirements.

b. Financial risk management objectives and policies

Categories and fair value of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are set out as follows:

	2009 RMB	2008 RMB
Financial assets		
Available-for-sale financial assets	**14,056**	13,956
Loans and receivables	**3,823,424**	3,031,505
Financial liabilities		
Financial liabilities stated at amortised cost	**7,669,044**	6,936,987
Financial guarantee liability	**3,383**	4,384

The Group's major financial instruments include loan receivable, trade and other receivables, amounts due from/to associates, jointly controlled entities and related companies, cash and cash equivalents, restricted bank deposits, trade and other payables, bank and other loans, short-term debenture, guaranteed notes and financial guarantee liability. Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

Currency risk

The functional currency of the Group's entities is RMB in which most of the transactions are denominated. However, certain loans and guaranteed notes issued by the Group and certain bank balances kept by the Group are denominated in foreign currencies.

The Group currently does not have a foreign currency hedging policy but the Directors monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated assets and liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Foreign currency:				
United States Dollar ("USD")	**69,491**	849	**2,443,721**	1,381,101
Hong Kong Dollar ("HKD")	**27,398**	1,254	**13,706**	125,786

6. Capital Risk Management and Financial Instruments *(continued)*

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

Currency risk (continued)

The following table details the Group's sensitivity to a reasonably possible change in exchange rate of each foreign currency against RMB, the functional currency of respective group entities, while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a change in foreign currency rates as set out below:

	United States Dollar		Hong Kong Dollar	
	2009	2008	**2009**	2008
	%	%	**%**	%
Possible change in exchange rate	**5**	5	**5**	5

	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
(Decrease) increase in profit for the year:				
– if RMB weakens against foreign currencies	**(118,712)**	(68,449)	**685**	(6,227)
– if RMB strengthens against foreign currencies	**118,712**	68,449	**(685)**	6,227

Interest rate risk

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 will enter into interest rate swap arrangement to mitigate the interest rate risks if appropriate.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to non-current amounts due from jointly controlled entities, non-current amounts due from associates, fixed-rate bank and other loans, short-term debenture and guaranteed notes (see Notes 25, 29, 36, 37 and 41 for details of these loans, debenture and notes respectively).

The fair value interest rate risk on bank balance and deposits is insignificant as the fixed deposits are short-term.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate loan receivable and bank loans (see Notes 24 and 36 for details of these amounts).

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the floating-rate financial instruments and the analysis is prepared assuming the amount of assets and liability outstanding at the end of the reporting period was outstanding for the whole year.

	2009	2008
	RMB'000	RMB'000
Reasonably possible change in interest rate	**27 basis points**	27 basis points
(Decrease) increase in profit for the year		
– as a result of increase in interest rate	**(8,017)**	(7,981)
– as a result of decrease in interest rate	**8,017**	7,981

The possible change in the interest rate does not affect the equity of the Group in both years.

6. Capital Risk Management and Financial Instruments *(continued)*

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

Price risk

The Group is exposed to equity price risk. Its investment in unlisted equity securities with carrying value of RMB14,056,000 (2008: RMB13,956,000) which was classified as available-for-sale investment but are stated at cost less accumulated impairment. However, as 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, accordingly, sensitivity analysis for price risk is not presented.

Credit risk

As at 31 December 2009, 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 statement of financial position; and
- the amount of contingent liability in relation to the financial guarantee contracts disclosed in Note 38.

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 the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

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

The Group has no significant concentration of credit risk to certain counterparties as, the exposure are spread over a number of counterparties and customers.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for all trade receivables at 31 December 2008 and 2009.

Liquidity risk

To manage the liquidity risk, the Group reviews the level of cash and cash equivalents to ensure their adequacy to finance the Group's operations and mitigate the effects of fluctuation in cash flows. The group also review the utilisation of borrowings and ensures the compliance of loan covenants.

The Group relies on bank and other loans as a significant source of liquidity. As at 31 December 2009, the Group has available unutilised short-term bank loan facilities and short-term debenture facilities of approximately RMB1,030,000,000 (2008: RMB2,043,000,000).

6. Capital Risk Management and Financial Instruments *(continued)*

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

Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average effective interest rate	Within one year	Within the second year	Within the third year	Within the forth year	Within the fifth year	Over five years	Total undiscounted cash flow	Carrying amount at end of the reporting period
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2009									
Trade and other payables	–	**1,356,794**	**2,200**	**49**	–	–	–	**1,359,043**	**1,359,043**
Amounts due to associates	–	**76,405**	–	–	–	–	–	**76,405**	**76,405**
Amounts due to jointly controlled entities	–	**327,826**	–	–	–	–	–	**327,826**	**327,826**
Amounts due to related companies	–	**21,261**	–	–	–	–	–	**21,261**	**21,261**
Bank and other loans									
– fixed rate	**3.60**	**636,924**	**3,214**	**3,214**	**3,214**	**3,214**	**99,707**	**749,487**	**712,383**
– variable rate	**5.04**	**216,157**	**481,313**	**551,240**	**907,865**	**266,512**	**1,241,959**	**3,665,046**	**3,012,218**
Short-term debenture	**3.15**	**825,200**	–	–	–	–	–	**825,200**	**808,699**
Guaranteed notes	**7.92**	**115,178**	**115,178**	**1,676,918**	–	–	–	**1,907,274**	**1,351,209**
Financial guarantee contracts	–	**30,000**	–	–	–	–	–	**30,000**	**3,383**
		3,605,745	**601,905**	**2,231,421**	**911,079**	**269,726**	**1,341,666**	**8,961,542**	**7,672,427**
At 31 December 2008									
Trade and other payables	–	1,347,884	1,100	10	–	–	–	1,348,994	1,348,994
Amounts due to associates	–	46,502	–	–	–	–	–	46,502	46,502
Amounts due to jointly controlled entities	–	102,844	–	–	–	–	–	102,844	102,844
Amounts due to related companies	–	35,507	–	–	–	–	–	35,507	35,507
Bank and other loans									
– fixed rate	4.81	297,429	3,214	3,214	3,214	3,214	99,708	409,993	383,665
– variable rate	5.61	1,126,677	184,136	242,523	283,379	305,932	1,598,893	3,741,540	3,042,505
Short-term debenture	5.95	630,043	–	–	–	–	–	630,043	630,043
Guaranteed notes	7.92	115,178	115,178	115,178	1,676,918	–	–	2,022,452	1,346,927
Financial guarantee contracts	–	60,000	–	–	–	–	–	60,000	4,384
		3,762,064	303,628	360,925	1,963,511	309,146	1,698,601	8,397,875	6,941,371

The amounts included above for financial guarantee contracts are the maximum exposure to the Group if that amounts is claimed by the counterparty to the guarantee. Based on the expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guarantee suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

6. Capital Risk Management and Financial Instruments *(continued)*

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

Liquidity risk (continued)

The contractual expiry periods of financial guarantees contracts at the end of the reporting period are as follows:

	2009 RMB'000	2009 Expiry period	2008 RMB'000	2008 Expiry period
Guarantees given to banks in respect of banking facilities utilised by associates	**30,000**	**2013**	60,000	2009-2013

Fair value

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

– The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

– The fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

Available-for-sale financial assets at 31 December 2009 of RMB14,056,000 (2008: RMB13,956,000) are stated at cost less impairment. As these investments are unlisted and the ranges of reasonable fair value estimates are significant, the Directors are of the opinion that their fair values cannot be measured reliably.

Except as detailed in the following table and certain available-for-sale financial assets as described above, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values:

	2009 Carrying amount RMB'000	2009 Fair value RMB'000	2008 Carrying amount RMB'000	2008 Fair value RMB'000
Amount due from a jointly controlled entity	–	–	20,000	19,330
Fixed-rate bank loans	**712,283**	**668,386**	383,665	358,231
Guaranteed notes	**1,351,209**	**1,352,527**	1,346,927	1,354,950

7. Revenue

	2009 RMB'000	2008 RMB'000
Revenue comprises the following:		
Sales of goods		
Sales of piped gas	**4,077,527**	3,094,767
Distributions of bottled liquefied petroleum gas	**897,121**	2,009,304
Vehicle gas refuelling stations	**797,663**	661,160
Sales of gas appliances	**86,814**	78,660
	5,859,125	5,843,891
Provision of service		
Gas connection fees	**2,553,755**	2,421,617
	8,412,880	8,265,508

8. Other Income

	2009 RMB'000	2008 RMB'000
Included in other income are:		
Incentive subsidies (note a)	**35,942**	38,456
Interest income	**20,759**	30,265
Compensation received	**1,296**	7,842
Gain on foreign exchange, net (note b)	**6,717**	89,917
Gain on disposal of prepaid lease payments	**–**	5,648
Gain on deemed acquisition of a subsidiary	**–**	1,294
Pipeline transmission income	**956**	1,069
Rental income from investment properties, net (note c)	**3,502**	2,581
Rental income from lease of equipment	**–**	465
Discount on acquisition of business (Note 44(b)(ii))	**–**	663
Repairs and maintenance income	**8,171**	6,447
Financial guarantee income	**1,001**	1,696

Notes:

(a) The amount mainly represents refunds of various taxes as incentives and other incentives in relation to encouragement for development of natural gas business by the government authorities in various cities of the PRC.

(b) Included in the amount is an amount of RMB1,280,000 (2008: RMB94,000,000) which is the exchange gain arising from the conversion of guaranteed notes denominated in US dollar.

(c) The outgoing expenses deducted from the gross rental income of investment properties amounted to RMB120,000 (2008: RMB108,000).

9. Other Gains and Losses

	2009 RMB'000	2008 RMB'000
(Loss) gain on disposal of property, plant and equipment	**(6,102)**	10,880
Impairment loss on property, plant and equipment (Note 16)	**(12,801)**	–
(Impairment loss) reversal of impairment loss on trade and other receivables, net (Note 27)	**(57,106)**	14,934
Impairment of available-for-sale financial assets	**–**	(18)
Revaluation (deficit) surplus on property, plant and equipment	**(9,344)**	9,645
Increase (decrease) in fair value of investment properties	**9,620**	(13,022)
Gain on disposal of an associate (Note 33)	**5,023**	–
Loss on disposal of a subsidiary (Note 45)	**(1,571)**	–
Loss on deregistration of jointly controlled entities (Note 22(e))	**(7,967)**	–
Write off other receivable	**(54,258)**	–
Gain on disposal of prepaid lease payments	**10,752**	–
Fair value adjustment on interest-fee advances to related companies of subsidiaries at initial recognition (Note 30)	**(7,350)**	–
Fair value adjustment on other receivables at initial recognition (Note 27)	**(1,538)**	–
Total (losses) gains	**(132,642)**	22,419

10. Finance Costs

	2009 RMB'000	2008 RMB'000
Interest on:		
Bank and other loans wholly repayable within five years	**150,320**	127,160
Bank loans not wholly repayable within five years	**98,570**	116,152
Guaranteed notes	**105,920**	107,629
Short-term debentures	**14,357**	51,307
Discounted note receivables	**631**	8,916
	369,798	411,164
Less: Amount capitalised under construction in progress (note)	**(41,349)**	(30,120)
	328,449	381,044

Note: Borrowing costs capitalised during the year arose from funds borrowed specifically for the purpose of obtaining qualifying asset.

11. Profit Before Taxation

	2009 RMB'000	2008 RMB'000
Profit before taxation has been arrived at after (crediting) charging:		
Amortisation of intangible assets (included in cost of sales)	**22,939**	27,543
Release of prepaid lease payments	**10,293**	8,966
Auditors' remuneration	**6,869**	6,470
Depreciation of property, plant and equipment	**357,468**	276,356
Minimum lease payments under operating leases in respect of land and buildings recognised in profit or loss	**24,804**	25,372
Research and development expenses (included in administrative expenses)	**4,810**	12,919
Share-based payment expenses, including directors' emoluments (included in administrative expenses)	**–**	4,330
Other staff costs, including directors' emoluments	**651,483**	596,639
Less: Amount capitalised under construction in progress	**(13,031)**	(34,059)
	638,452	566,910

12. Remuneration of Directors and Employees

(a) Directors' emoluments

Emoluments paid to the Directors for the year were as follows:

	2009					
Name of director	**Fee**	**Salaries and allowance**	**Discretionary performance bonus**	**Share base payment**	**Retirement benefit scheme contributions**	**Total emoluments**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Wang Yusuo	**–**	**2,115**	**–**	**–**	**–**	**2,115**
Chen Jiacheng	**–**	**1,483**	**304**	**–**	**67**	**1,854**
Zhao Jinfeng	**–**	**441**	**–**	**–**	**–**	**441**
Jin Yongsheng	**132**	**–**	**–**	**–**	**–**	**132**
Yu Jianchao	**–**	**441**	**–**	**–**	**–**	**441**
Cheung Yip Sang	**–**	**1,105**	**747**	**–**	**33**	**1,885**
Cheng Chak Ngok	**–**	**761**	**–**	**–**	**11**	**772**
Liang Zhiwei	**–**	**441**	**–**	**–**	**–**	**441**
Zhai Xiaoqin	**–**	**441**	**–**	**–**	**–**	**441**
Zhao Baoju	**132**	**–**	**–**	**–**	**–**	**132**
Wang Guangtian	**132**	**–**	**–**	**–**	**–**	**132**
Yien Yu Yu, Catherine	**132**	**–**	**–**	**–**	**–**	**132**
Kong Chung Kau	**132**	**–**	**–**	**–**	**–**	**132**
	660	**7,228**	**1,051**	**–**	**111**	**9,050**

	2008					
Name of director	Fee	Salaries and allowance	Discretionary performance bonus	Share base payment	Retirement benefit scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wang Yusuo	–	2,135	–	–	–	2,135
Yang Yu	–	1,412	–	525	–	1,937
Chen Jiacheng	–	1,488	280	488	62	2,318
Zhao Jinfeng	–	445	–	488	–	933
Qiao Limin	–	392	–	488	–	880
Jin Yongsheng	133	–	–	–	–	133
Yu Jianchao	–	445	–	488	–	933
Cheung Yip Sang	–	1,083	600	428	31	2,142
Cheng Chak Ngok	–	641	–	60	11	712
Liang Zhiwei	–	52	–	–	–	52
Zhai Xiaoqin	–	52	–	–	–	52
Zhao Baoju	133	–	–	–	–	133
Wang Guangtian	133	–	–	–	–	133
Yien Yu Yu, Catherine	133	–	–	–	–	133
Kong Chung Kau	133	–	–	–	–	133
	665	8,145	880	2,965	104	12,759

The amounts disclosed above include directors' fees of RMB387,000 (2008: RMB399,000) payable to independent non-executive directors. None of the directors waived any emoluments during the year.

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

(b) Five highest paid individuals

The five highest paid individuals in the Group in 2009 and 2008 were all directors of the Company and details of their emoluments are included in note (a) above.

13. Taxation

	2009 RMB'000	2008 RMB'000
PRC Enterprise Income Tax:		
Current tax	**336,172**	224,855
(Over) under provision in prior years	**(19,057)**	935
	317,115	225,790
Deferred tax (Note 42)		
Current year	**(12,656)**	34,165
	304,459	259,955

The charge represents PRC Enterprise Income Tax for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable for PRC group entities is 25% from 1 January 2008 onwards except for certain group entities which are entitled to various concessionary tax rates as disclosed below.

Pursuant to the relevant laws and regulations in the PRC in respect of preferential tax benefit for entities engaged in energy infrastructure business, certain PRC subsidiaries enjoying preferential tax rate of 15% of the Company in 2007 is gradually transit to the new tax rate of 25% within 5 years after the enforcement of the New Law and the tax rate applicable for 2009 is 20%.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter and a 50% relief from PRC Enterprise Income Tax for the following three years. Under the New Law, the PRC Enterprise Income Tax rates applicable to these subsidiaries range from 20% to 25% (2008:18% to 25%) and the reduced tax rates for the relief period range from 10% to 12.5% (2008: 9% to 12.5%). The charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentives into account. The tax benefit will expire during the period from year 2010 to 2012.

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

13. Taxation *(continued)*

Income tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2009 RMB'000	2008 RMB'000
Profit before taxation	**1,381,108**	1,130,679
Tax at the PRC Enterprise Income Tax rate of 25%	**345,277**	282,670
Tax effects of:		
Share of results of associates	**(1,267)**	(1,837)
Share of results of jointly controlled entities	**(52,680)**	(48,207)
Income not taxable for tax purpose	**(7,032)**	(29,399)
Expenses not deductible for tax purpose	**65,837**	79,036
Tax losses not recognised	**95,736**	107,948
Utilisation of tax losses previously not recognised	**(8,438)**	(14,353)
Deductible temporary differences not recognised	**43,101**	37,787
Tax concession and exemption granted to PRC subsidiaries	**(29,621)**	(10,113)
Different tax rates of subsidiaries	**(143,655)**	(167,624)
(Over) under provision in respect of prior years	**(19,057)**	935
Withholding tax on undistributed profit of PRC entities	**16,258**	23,112
Income tax charge for the year	**304,459**	259,955

In addition to the income tax expense charged to consolidated statement of comprehensive income, a deferred tax charge of RMB8,964,000 (2008: RMB692,000) has been recognised in other comprehensive income for the year ended 31 December 2009. (see Note 42).

14. Dividends

	2009 RMB'000	2008 RMB'000
Final dividend paid in respect of 2008 of HKD17.71 cents (equivalent to RMB15.62 cents) per share (2008: 2007 final dividend of HKD13.42 cents (equivalent to approximately RMB12.57 cents) per share)	**157,644**	119,136
Final dividend proposed in respect of 2009 of HKD21.65 cents (equivalent to RMB19.06 cents) per share (2008: 2008 final dividend proposed of HK$17.71 cents (equivalent to RMB15.62 cents) per share)	**200,158**	157,676

The final dividend in respect of 2009 of HKD21.65 cents (equivalent to approximately RMB19.06 cents per share on 1,050,149,397 shares has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. Earnings Per Share

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

	2009 RMB'000	2008 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**800,634**	630,705

	2009 Number of shares	2008 Number of shares
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,032,665,507**	1,009,759,397
Effect of dilutive potential ordinary shares:		
– share options	**4,151,448**	17,370,733
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,036,816,955**	1,027,130,130

All share options have been exercised in June 2009 and the Group has no potential ordinary shares as at 31 December 2009.

16. Property, Plant and Equipment

	Land and buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST/VALUATION							
At 1 January 2008	655,947	4,643,649	375,344	266,808	259,853	1,127,835	7,329,436
Transfer from investment properties	18,423	–	–	–	–	–	18,423
Acquisition of subsidiaries	28,526	2,697	106,915	1,185	1,658	10,009	150,990
Additions	46,221	69,558	25,109	53,139	59,266	963,295	1,216,588
Reclassification	41,507	754,733	62,467	4,316	(3,346)	(859,677)	–
Disposals	(18,456)	(5,500)	(9,061)	(10,453)	(4,038)	–	(47,508)
Adjustment on valuation	(8,065)	–	–	–	–	–	(8,065)
At 31 December 2008	764,103	5,465,137	560,774	314,995	313,393	1,241,462	8,659,864
Acquisition of a subsidiary	8,817	3,770	6,888	46	27	7	19,555
Additions	52,680	307,170	80,500	35,378	68,317	1,064,666	1,608,711
Reclassification	66,450	696,084	60,124	–	99,131	(921,789)	–
Disposal of a subsidiary	–	–	(3,037)	(270)	(130)	(1,464)	(4,901)
Disposals	(10,779)	(21,764)	(7,991)	(10,693)	(12,994)	(452)	(64,673)
Adjustment on valuation	4,781	–	–	–	–	–	4,781
At 31 December 2009	886,052	6,450,397	697,258	339,456	467,744	1,382,430	10,223,337
Comprising:							
At cost	–	6,450,397	697,258	339,456	467,744	1,382,430	9,337,285
At valuation 2009	886,052	–	–	–	–	–	886,052
	886,052	6,450,397	697,258	339,456	467,744	1,382,430	10,223,337
DEPRECIATION AND AMORTISATION/IMPAIRMENT							
At 1 January 2008	–	367,623	80,331	76,172	39,057	5,512	568,695
Provided for the year	26,377	134,038	34,361	42,220	39,360	–	276,356
Eliminated on disposals	(3,175)	(1,229)	(3,726)	(6,914)	(2,328)	–	(17,372)
Adjustment on valuation	(23,202)	–	–	–	–	–	(23,202)
At 31 December 2008	–	500,432	110,966	111,478	76,089	5,512	804,477
Provided for the year	23,060	197,382	33,532	44,399	59,095	–	357,468
Impairment loss recognised	2,775	8,193	1,575	25	233	–	12,801
Eliminated on disposal of a subsidiary	–	–	(100)	–	(4)	–	(104)
Eliminated on disposals	(2,046)	(2,568)	(3,502)	(7,223)	(4,236)	–	(19,575)
Adjustment on valuation	(23,789)	–	–	–	–	–	(23,789)
At 31 December 2009	–	703,439	142,471	148,679	131,177	5,512	1,131,278
CARRYING VALUES							
At 31 December 2009	886,052	5,746,958	554,787	190,777	336,567	1,376,918	9,092,059
At 31 December 2008	764,103	4,964,705	449,808	203,517	237,304	1,235,950	7,855,387

16. Property, Plant and Equipment

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

Land and buildings	Over the shorter of 30 years or the term of the leases
Pipelines	Over the shorter of 30 years or the term of the leases
Machinery and equipment	10 years
Motor vehicles	6 years
Office equipment	6 years

At the end of the reporting period, except for certain land and buildings with the carrying value of RMB21,069,000 (2008: RMB20,705,000) which are located in Hong Kong under long lease, the remaining land and buildings are located in the PRC under medium lease.

At the end of the reporting period, the Group is in the process of obtaining title deeds for its buildings in the PRC amounting to approximately RMB179,602,000 (2008: RMB262,693,000). 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 2009, resulting in a revaluation surplus of RMB28,570,000 (2008: RMB15,137,000), of which RMB37,914,000 has been credited (2008: RMB5,492,000) to the property revaluation reserve and RMB9,344,000 has been debited (2008: RMB9,645,000 has been credited) to consolidated statement of comprehensive income. The valuation has been arrived at by reference to valuation carried out by Knight Frank Petty Limited ("Knight Frank Petty"), an independent firm of qualified professional valuers, on an open market value basis. Knight Frank Petty has appropriate qualifications and recent experiences in the valuation of similar properties in relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. At 31 December 2009, the carrying value of these revalued buildings amounted to RMB886,052,000 (2008: RMB764,103,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation of RMB857,432,000 (2008: RMB647,343,000).

In 2008, the Group replaced the pipelines for delivery of coal gas into pipelines for delivery of natural gas in Shijiazhuang, Hebei Province, the PRC. During the year ended 31 December 2009, the Director considered that the realisation value of such coal gas pipelines is immaterial and the cost for reuse outweighs the carrying values, therefore, full impairment loss of RMB12,801,000 is recognised in consolidated statement of comprehensive income during the year ended 31 December 2009.

17. Prepaid Lease Payments

	2009 **RMB'000**	2008 RMB'000
Operating leases prepayment in respect of:		
Land in Hong Kong under long leases	**4,768**	4,912
Land in the PRC under medium term land use rights	**535,246**	476,670
	540,014	481,582
Analysed for reporting purposes as:		
Non-current portion	**528,909**	472,228
Current portion	**11,105**	9,354
	540,014	481,582

At the end of the reporting period, the Group is in the process of obtaining land use right certificates for the land in the PRC amounting to approximately RMB33,724,000 (2008: RMB20,864,000). 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.

18. Investment Properties

	RMB'000
FAIR VALUE	
At 1 January 2008	94,450
Transfer to property, plant and equipment	(18,423)
Net decrease in fair value recognised in the consolidated statement of comprehensive income	(13,022)
At 31 December 2008	63,005
Net increase in fair value recognised in the consolidated statement of comprehensive income	9,620
At 31 December 2009	72,625

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.

	2009 **RMB'000**	2008 RMB'000
The carrying value of investment properties shown above comprises operating leases in respect of:		
Properties in Hong Kong under long lease (note)	**22,188**	16,039
Properties in PRC under medium term lease (note)	**50,437**	46,966
	72,625	63,005

Note: The amount includes leasehold lands and buildings classified as investment properties.

The fair value of the Group's investment properties at 31 December 2008 and 2009 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty, on an open market value basis. The valuation 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 RMB22,188,000 (2008: RMB29,449,000) to secure general banking facilities and mortgage loan granted to the Group.

The property rental income, net of outgoing expenses of RMB120,000 (2008: RMB108,000), earned by the Group from its investment properties, all of which is leased out under operating leases, amounted to RMB3,502,000 (2008: RMB2,581,000).

19. Goodwill

	2009 RMB'000	2008 RMB'000
COST		
At beginning of the year	**219,532**	204,236
Arising on:		
Acquisition of businesses (Note 44)	**2,936**	15,296
At end of the year	**222,468**	219,532
IMPAIRMENT		
At beginning and end of the year	**(50,606)**	(50,606)
CARRYING AMOUNTS		
At end of the year	**171,862**	168,926

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

For the purposes of impairment testing, goodwill has been allocated to the following cash generating units (CGUs). At the end of the reporting period, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of:

	2009 RMB'000	2008 RMB'000
Sale of piped gas business located in Lianyungang, the PRC	**17,628**	17,628
Sale of piped gas business located in Kaifeng, the PRC	**15,833**	15,833
Sale of piped gas business located in Hangzhou Xiaoshan, the PRC	**37,011**	37,011
Production and sale of liquefied natural gas (included under sale of piped gas segment)	**15,296**	15,296
Other CGUs	**86,094**	83,158
	171,862	168,926

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.

For the purpose of impairment testing, the Group prepares cash flow projection covering a 10-year period. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period. The cash flows beyond the 5-year period are extrapolated using an estimated growth pattern at growth rates between 0.15% to 23.89% (2008: 0.46% to 26.21%), and discount rate of 8% (2008: 8%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The financial budgets and growth rates used in the cash flow forecasts are estimated according to the average project life and 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.

20. Intangible Assets

	Rights of operation RMB'000	Customer base RMB'000	Total RMB'000
COST			
At 1 January 2008	452,200	42,407	494,607
Addition	2,000	–	2,000
Acquired on acquisition of businesses (Note 44(b))	20,361	390	20,751
At 31 December 2008	474,561	42,797	517,358
Addition	8,000	–	8,000
At 31 December 2009	482,561	42,797	525,358
AMORTISATION			
At 1 January 2008	22,471	2,632	25,103
Charge for the year	26,008	1,535	27,543
At 31 December 2008	48,479	4,167	52,646
Charge for the year	21,400	1,539	22,939
At 31 December 2009	69,879	5,706	75,585
CARRYING VALUES			
At 31 December 2009	412,682	37,091	449,773
At 31 December 2008	426,082	38,630	464,712

Notes: Rights of operation and customer base are amortised on a straight-line method over the operation periods ranging from 18 to 50 years.

21. Interests in Associates

	2009 RMB'000	2008 RMB'000
Cost of unlisted investment	**321,213**	290,467
Share of post-acquisition profits net of dividend received	**2,667**	2,016
	323,880	292,483

21. Interests in Associates *(continued)*

Details of the Group's associates as at 31 December 2009 and 31 December 2008 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 2009	2008	Principal activities
東莞新奥莞樟燃氣有限公司 ("Dongguan Xinao Guanzhang Gas Company Limited")	Incorporated	The PRC	**25%** (note a)	25% (note a)	Investment in gas pipeline infrastructure and sales of piped gas
東莞長安新奥燃氣有限公司 ("Dongguan Changan Xinao Gas Company Limited")	Incorporated	The PRC	**25%** (note a)	25% (note a)	Investment in gas pipeline infrastructure and sales of piped gas
山東魯新天然氣有限公司 ("Shandong Luxin Xinao Gas Company Limited")	Incorporated	The PRC	**30%**	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 Industry Company Limited")	Incorporated	The PRC	**30%**	30%	Sales of piped gas
咸陽新奥燃氣有限公司 ("Xianyang Xinao Gas Company Limited")	Incorporated	The PRC	**–** (note b)	40% (note b)	Sales of piped gas
上海新奥九環車用能源股份有限公司 ("Shanghai Xinao Jiuhuan Vehicle Gas Joint-stock Company Limited")	Incorporated	The PRC	**54.57%** (note c)	54.57% (note c)	Sales of liquid petroleum gas
上海九環汽車天然氣發展有限公司 ("Shanghai Jiuhuan Vehicle Natural Gas Development Company Limited")	Incorporated	The PRC	**40%** (note d)	40% (note d)	Sales of compressed natural gas
上海九環交通大眾油汽供應有限公司 ("Shanghai Jiuhuan Public Transportation Gas Supplies Company Limited")	Incorporated	The PRC	**47.29%**	47.29%	Sales of liquid petroleum gas
上海九環大眾油汽供應有限公司 ("Shanghai Jiuhuan Public Gas Supplies Company Limited")	Incorporated	The PRC	**30%** (note e)	30% (note e)	Sales of liquid petroleum gas
新能能源有限公司 ("Xinneng Energy Company Limited")	Incorporated	The PRC	**15%** (note f)	15% (note f)	Design, construction, equipment installation and operation of a greenfield coal-to-methanol conversion plant
洛陽市億能工貿有限責任公司 ("Luoyang Yineng Company Limited")	Incorporated	The PRC	**25%**	25%	Sales of piped gas and gas application
寧夏清潔能源發展有限公司 ("Ningxia Clean Energy Development Co., Ltd.")	Incorporated	The PRC	**30%**	30%	Sales of liquid petroleum gas
中石化新奥(天津)能源有限公司	Incorporated	The PRC	**45%** (note g)	–	Sales of piped gas

21. Interests in Associates *(continued)*

Notes:

(a) The Group holds direct interest of 25% and indirect interest in these entities through a jointly controlled entity, Dongguan Xinao Gas Company Limited ("Dongguan Xinao"). The indirect interest in Dongguan Xinao Guanzhang Gas Company Limited and Dongguan Changan Xinao Gas Company Limited is 45% and 38% respectively.

(b) The Company disposed of Xianyang Xinao Gas Company Limited ("Xianyang Xinao") during the year and the transaction has not yet completed up to 31 December 2008, therefore, the Group's interests in Xianyang Xinao are classified as "Non-current assets classified as held for sale" at 31 December 2008 as set out in Note 33. The disposal was completed during the year ended 31 December 2009.

(c) The Group holds 54.57% of the registered capital of Shanghai Xinao Jiuhuan Vehicle Gas 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 as all such decision must be approved by more than two-third of the directors out of the total eleven directors appointed by the seven joint venturers and it is therefore classified as an associate of the Group.

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

(e) The Group holds direct interest of 30% and indirect effective interest of 10.91% through another associate in the registered capital of Shanghai Jiuhuan Public Gas Supplies Company Limited. The Directors consider that the Group can only exercise significant influence over the entity and it is therefore classified as an associate of the Group.

(f) 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 consider that the Group exercises significant influence over this entity and it is therefore classified as an associate of the Group.

(g) The Group holds 45% equity interest in 中石化新奧(天津)能源有限公司 and the remaining equity interest of this entity are held by another two shareholders, which holds 45% and 10% respectively. According to the memorandum of association of the entity, all the financial and operating decision of the entity must be approved by two-third of the directors and the proportion of voting power held by the three shareholders are 40%, 40% and 20%, therefore, this entity is classified as an associate of the Group.

Included in the cost of investment in associates is deemed capital contribution of approximately RMB8,246,000 (2008: Nil) in relation to interest free advances to certain associates by the Group and goodwill of RMB47,668,000 (2008: RMB47,668,000) arising on acquisition of associates. The fair value adjustment on the interest free advances are calculated by using an effective interest rate at 5.4% per annum and average terms of 2 years. The movement of goodwill is set out below:

	2009 **RMB'000**	2008 RMB'000
At beginning of the year	**47,668**	64,314
Transferred to non-current assets held for sale	**–**	(16,646)
At end of the year	**47,668**	47,668

21. Interests in Associates *(continued)*

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

	2009 RMB'000	2008 RMB'000
Total assets	**4,925,259**	4,500,187
Total liabilities	**(3,775,066)**	(3,336,910)
Net assets	**1,150,193**	1,163,277
Group's share of net assets of associates	**263,194**	240,043
Goodwill on acquisition of associates	**47,668**	47,668
Deemed capital contribution		
– Financial guarantee	**4,772**	4,772
– Fair value adjustments on interest-free advances	**8,246**	–
	323,880	292,483
Revenue	**1,011,115**	1,084,858
(Loss) profit for the year	**(53,926)**	17,147
Group's share of profit of associates for the year	**5,066**	7,347

22. Interests in Jointly Controlled Entities

	2009 RMB'000	2008 RMB'000
Cost of unlisted investments	**620,752**	499,952
Shares of post-acquisition profits, net of dividends received	**394,889**	257,668
	1,015,641	757,620

Details of the Group's jointly controlled entities as at 31 December 2009 and 31 December 2008 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 2009	2008	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%**	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	**55%** (note a)	55% (note a)	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%**	50%	Investment in gas pipeline infrastructure, sale of gas appliances and equipment, provision of repair and maintenance service and operation of natural gas station

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

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group 2009	2008	Principal activities
鹿泉富新燃氣有限公司 ("Luquan Fuxin Gas Company Limited")	Incorporated	The PRC	**49%**	49%	Investment in gas pipeline infrastructure and sales of piped gas
煙台新奧燃氣發展有限公司 ("Yantai Xinao Gas Development Company Limited")	Incorporated	The PRC	**50%**	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%**	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 b)	55% (note b)	Sales of piped gas
寧波新奧燃氣有限公司 ("Ningbo Xinao Gas Company Limited")	Incorporated	The PRC	**49%**	49%	Sales of piped gas
內蒙古呼鐵新能物流股份有限公司 ("Neimenggu Hutiexinneng Logistics Holdings Limited")	Incorporated	The PRC	**39%** (note c)	39% (note c)	Provision of logistic services by railway
長沙新奧燃氣發展有限公司 ("Changsha Xinao Gas Development Limited")	Incorporated	The PRC	**55%** (note d)	55% (note d)	Sales of piped gas
德化廣安天然氣有限公司 ("Dehua Guangan Natural Gas Limited")	Incorporated	The PRC	**51%** (note d)	51% (note d)	Sales of piped gas
合肥新奧中汽能源發展有限公司 ("Hefei Xinao Zhongqi Energy Development Company Limited")	Incorporated	The PRC	**51%** (note d)	51% (note d)	Production, processing and operation of clean energy fuels like vehicle fuels, natural gas, liquefied petroleum gas, directly lather and methanol. Fitting of vehicle fuel appliances, construction and operation of CNG supply facilities, operation of vehicle repair.
北航新奧航務有限公司 ("Xinao Harbour Company Limited")	Incorporated	The PRC	**49%**	49%	Construction and operation of the facilities in pier
開封新奧銀海車用燃氣有限公司 ("Kaifeng Xinao Yinhai Gas For Vehicle Company Limited")	Incorporated	The PRC	**49%**	49%	Sale of gas appliances
廣東新奧龍鵬能源有限公司 ("Guangdong Xinao Longpeng Energy Company Limited")	Incorporated	The PRC	**–** (note e)	55% (note d)	Wholesale of liquefied petroleum gas

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

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group 2009	2008	Principal activities
新奧新能源(蘇州)有限公司 ("Xinao New Energy (Suzhou) Company Limited")	Incorporated	The PRC	– (note e)	50%	Wholesale of liquefied petroleum gas, directly lather and methanol
雲南新奧清潔能源有限公司 ("Yunan Xinao Clean Energy Company Limited")	Incorporated	The PRC	**60%** (note d)	60% (note d)	Production of compressed energy fuels including vehicle fuels, construction and operation of CNG supply facilities and operation of vehicle repair
廊坊新奧尤特萊職業培訓有限公司 ("Langfang ENN UTDSC Vocational Training Company Limited")	Incorporated	The PRC	– (note e)	51% (note d)	Provisional of professional technical training and consulting services of the business units
唐山新奧一運清潔能源有限公司 ("Tangshan Xinao Yiyun Clean Energy Company Limited")	Incorporated	The PRC	**60%** (note d)	60% (note d)	Construction and operation of CNG supply facilities and sales of vehicle fuel gas
蘇州新奧燃氣有限公司 ("Suzhou Xinao Company Limited")	Incorporated	The PRC	**51%** (note d)	51% (note d)	Wholesale of liquefied petroleum gas, CNG, directly lather and methanol
雲南雲投新奧燃氣有限公司 ("Yunnan Yuntaou Xinao Company Limited")	Incorporated	The PRC	**50%**	–	Construction and operation of vehicle gas refuelling stations

Notes:

(a) During the year ended 31 December 2008, the Group entered into an agreement with a joint venture partner, 東莞市新鋒管道燃氣有限公司, to acquire additional 6% equity interest in a jointly controlled entity, Dongguan Xinao, at a consideration of RMB51,277,000. Upon the completion of the transaction, Dongguan Xinao is still considered as a jointly controlled entity of the Group as the Group does not have the power to appoint further directors to control Dongguan Xinao under the joint venture agreement.

(b) 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, all financial and operational decision must be approved by more than two-third of the directors, therefore, Zhuzhou Xinao Gas Development Company Limited is classified as a jointly controlled entity of the Group.

(c) The Group holds 39% of the registered capital of Neimenggu Hutiexinneng Logistics Holdings Limited as at 31 December 2008. Under the joint venture agreement, all financial and operational decision must be approved by more than two-third of the directors, therefore, Neimenggu Hutiexinneng Logistics Holdings Limited is classified as a jointly controlled entity of the Group.

(d) The Group holds more than 50% of the registered capital of these entities but it does not has the power to appoint further directors to control these entities and the joint venture partners in each entity controls jointly on the operational and financial policies of each entity. Accordingly these entities are classified as jointly controlled entities of the Group.

(e) These jointly controlled entities have been deregistered during the year ended 31 December 2009 and loss on deregistration amounting to RMB7,967,000 is recognised in profit and loss.

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

Included in the cost of investments in jointly controlled entities is deemed capital contribution of RMB1,000,000 (2008: RMB1,000,000) in relation to financial guarantee contract issued by the Group, deemed capital contribution of approximately RMB17,722,000 (2008: Nil) in relation to interest free advances to certain jointly controlled entities and goodwill of RMB94,141,000 (2008: RMB94,141,000). The fair value adjustment on the interest free advances are calculated by using an effective interest rate at 5.4% per annum and average terms of 2 years. The movement of goodwill is set out below:

	2009 RMB'000	2008 RMB'000
At beginning of the year	**94,141**	69,521
Arising on acquisition of additional interest in a jointly controlled entity, Dongguan Xinao	–	24,620
At end of the year	**94,141**	94,141

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

	2009 RMB'000	2008 RMB'000
Current assets	**882,538**	631,366
Non-current assets	**981,866**	815,181
Current liabilities	**784,641**	520,475
Non-current liabilities	**188,383**	272,382
Income	**1,754,211**	1,832,400
Expenses	**1,543,492**	1,626,880

23. Available-For-Sale Financial Assets

	2009 RMB'000	2008 RMB'000
Unlisted equity securities, at cost less impairment	**14,056**	13,956

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 the end of the reporting period 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.

24. Loan Receivable

	2009 RMB'000	2008 RMB'000
Represented by		
Non-current	**9,000**	12,000
Current (included in trade and other receivables) (Note 27)	**3,000**	3,000
	12,000	15,000

During the year ended 31 December 2008, the Group granted a loan amounting to RMB15,000,000 to an independent third party to the Group. The amount is interest bearing at the People's Bank of China ("PBOC") base rate plus 1%, repayable by annual instalment starting from 31 March 2009 and up to 31 March 2013.

The Directors are of the opinion that the loan receivable balance is not impaired as the repayment history of the debtor is satisfactory.

25. Amounts due from/to Jointly Controlled Entities

	2009 RMB'000	2008 RMB'000
Amount due from jointly controlled entities:		
Current assets	**155,041**	207,350
Non-current assets	**26,644**	20,000
	181,685	227,350

Included in the amount due from/to jointly controlled entities are trade receivables amounting to RMB95,834,000 (2008: RMB95,016,000) and trade payables amounting to RMB131,702,000 (2008: RMB83,546,000) and the aged analysis is as follow:

	2009 RMB'000	2008 RMB'000
Trade receivables due from jointly controlled entities		
0 – 3 months	**33,331**	59,686
4 – 6 months	**36,871**	25,130
7 – 9 months	**9,305**	481
10 – 12 months	**3,612**	5,184
More than 1 year	**12,715**	4,535
	95,834	95,016
Trade payables due to jointly controlled entities		
0 – 3 months	**30,642**	70,651
4 – 6 months	**32,237**	3,910
7 – 9 months	**15,963**	2,959
10 – 12 months	**13,788**	1,940
More than 1 year	**39,072**	4,086
	131,702	83,546

Owing the strategic relationship with the jointly controlled entities, there is no formal credit policy applied to above balances by the Group and the jointly controlled entities and in the opinion of the directors of the Company, the above balances are not overdue.

Except for the unsecured amount due from a jointly controlled entity of RMB20,000,000 as at 31 December 2008, which bears interest at fixed rate at 6.57% per annum and is early repaid by the Group in 2009, the remaining amounts due from/to jointly controlled entities at 31 December 2008 and 2009 are unsecured, interest-free and without fixed repayment terms.

For the interest-free amounts due from jointly controlled entities that the Group expects to recover after one year from the end of the reporting period, fair value adjustment amounting to RMB17,722,000 (2008: Nil) has been recognised as deemed capital contribution to jointly controlled entities for the year ended 31 December 2009. For the remaining amounts due from jointly controlled entities, the Group expects the amounts will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from jointly controlled entities are not impaired as the counterparties are jointly controlled entities that are financially sound.

26. Inventories

	2009 RMB'000	2008 RMB'000
Construction materials	**204,066**	154,134
Gas appliances	**34,864**	32,007
Piped gas	**19,531**	37,299
Bottled liquefied petroleum gas	**4,709**	8,440
Spare parts and consumable	**22,876**	22,180
	286,046	254,060

The cost of inventories recognised as an expense during the year was RMB5,230,667,000 (2008: RMB5,019,197,000).

27. Trade and Other Receivables

	2009 RMB'000	2008 RMB'000
Trade receivables (note a)	**569,415**	490,754
Less: Impairment	**(76,273)**	(39,231)
	493,142	451,523
Other receivables (note b)		
– current portion	**210,706**	335,901
– non-current portion	**30,581**	–
	241,287	335,901
Less: Impairment	**(48,820)**	(39,232)
	192,467	296,669
Notes receivable (note c)	**37,538**	186,342
Advance to supplier, deposits and prepayments	**515,709**	496,553
Total trade and other receivables	**1,238,856**	1,431,087

	2009 RMB'000	2008 RMB'000
Analysed for reporting purpose as:		
Current assets	**1,208,275**	1,431,087
Non-current assets	**30,581**	–
	1,238,856	1,431,087

Notes:

(a) Included in trade receivables are retentions held by customers for contract work with an average retention period of one year amounting to RMB1,347,000 (2008: RMB1,892,000).

(b) During the year, the Directors reassess the recoverability of the other receivables from affiliates of minority shareholders of subsidiaries and expects that an amount of RMB32,119,000 (2008: Nil) will be recoverable after one year from the end of the reporting period. Fair value adjustment amounting to approximately RMB1,538,000 (2008: Nil) as calculated by using effective interest rate of 5.94% per annum and terms ranges from 3 to 7 years has been recognised in profit or loss for the year ended 31 December 2009. The Directors expects the amounts receivable will be recovered from the distribution of profits from the subsidiaries in which the minority shareholders have interests. Accordingly, no impairment is provided.

(c) The notes receivables were endorsed for guarantee payments by PRC banks and the default risk is considered to be minimal.

The Group allows an average credit period of 60 to 90 days to its trade customers, except for certain customers with credit period more than 90 days. The following is an aged analysis of trade receivables, net of impairment, at the end of the reporting period:

	2009 RMB'000	2008 RMB'000
0-3 months	**352,018**	280,300
4-6 months	**56,237**	101,705
7-9 months	**32,825**	40,811
10-12 months	**23,411**	16,423
More than 1 year	**28,651**	12,284
	493,142	451,523

27. Trade and Other Receivables *(continued)*

The following is an aged analysis of notes receivable:

	2009 RMB'000	2008 RMB'000
0-3 months	**37,538**	179,845
4-6 months	**–**	6,497
	37,538	186,342

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. The Directors are of the opinion that the credit quality of the trade receivable balances that are neither past due nor impaired as at the end of the reporting period is good as the repayment history of the debtors is satisfactory.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB398,402,000 (2008: RMB401,498,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 71 days (2008: 73 days).

Aged analysis of trade receivables which are past due but not impaired

Except for certain trade receivable past due beyond one year, the Group has fully provided for all receivables over one year because historical experience is that receivables that are past due beyond one year are generally not recoverable. No impairment has been made to the remaining receivables past due as the Group is satisfied with the subsequent settlements from the debtors and the credit quality of these customers. The overdue receivables with aged over one year have been recovered by the Group after the end of the reporting period.

	2009 RMB'000	2008 RMB'000
Within one year	**398,365**	401,151
Over one year	**37**	347
Total	**398,402**	401,498

Movements in the impairment on trade receivables

	2009 RMB'000	2008 RMB'000
Balance at beginning of the year	**39,231**	96,953
Impairment losses recognised on receivables	**59,885**	30,206
Amounts recovered during the year	**(12,367)**	(51,009)
Amounts written off as uncollectible	**(10,476)**	(36,919)
Balance at end of the year	**76,273**	39,231

All trade receivables are assessed not to be impaired individually and therefore, they are subsequently assessed for impairment on a collective basis. The Group does not hold any collateral over these balances.

Movements in the impairment on other receivables

	2009 RMB'000	2008 RMB'000
Balance at beginning of the year	**39,232**	33,363
Impairment losses recognised on receivables	**10,130**	7,875
Amounts recovered during the year	**(542)**	(2,006)
Balance at end of the year	**48,820**	39,232

All other receivables are assessed to be impaired individually, as the Directors are of the opinion that certain counterparties have financial difficulties in repaying the amounts, impairment losses amounting to RMB10,130,000 (2008: RMB7,875,000) has been made during the year ended 31 December 2009.

The Directors are of the opinion that except for those receivable that are impaired, the remaining other receivables are not impaired as the counterparties are either affiliates of minority shareholders of subsidiaries or with satisfactory repayment history.

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

	2009 RMB'000	2008 RMB'000
Contract costs incurred plus recognised profits	**651,076**	625,830
Less: Progress billings	**(974,559)**	(596,118)
	(323,483)	29,712
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**241,415**	495,318
Amounts due to customers for contract work	**(564,898)**	(465,606)
	(323,483)	29,712

29. Amounts due from/to Associates

	2009 RMB'000	2008 RMB'000
Amounts due from associates:		
Current	**4,301**	17,630
Non-current	**71,795**	–
	76,096	17,630

Included in the amount due from/to associate are trade receivables amounting to RMB12,057,000 (2008: RMB6,083,000) and trade payables amounting to RMB2,628,000 (2008: RMB669,000) and the aged analysis is as follow:

	2009 RMB'000	2008 RMB'000
Trade receivables due from associates		
0 – 3 months	**6,474**	3,703
4 – 6 months	**1,920**	683
7 – 9 months	**237**	912
10 – 12 months	**1,625**	680
More than 1 year	**1,801**	105
	12,057	6,083
Trade payables due to associates		
0 – 3 months	**2,270**	669
4 – 6 months	**69**	–
7 – 9 months	**289**	–
	2,628	669

Owing the strategic relationship with the associates, there is no formal credit policy applied to above balances by the Group and in the opinion of the directors of the Company, the above balances are not overdue.

The amounts due from/to associates are unsecured, interest-free and repayable on demand.

For the interest-free amounts due from associates that the Group expects to recover after one year from the end of the reporting period, fair value adjustment amounting to RMB8,246,000 (2008: Nil) has been recognised as deemed capital contribution to associates for the year ended 31 December 2009. The Group expects the remaining amounts due from associates will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from associates are not impaired as the counterparties are associates that are financially sound.

30. Amounts due from Related Companies

	2009			2008		
	Balance at 31.12.2009 RMB'000	**Balance at 1.1.2009 RMB'000**	**Maximum amount outstanding during the year RMB'000**	Balance at 31.12.2008 RMB'000	Balance at 1.1.2008 RMB'000	Maximum amount outstanding during the year RMB'000
Amounts due from minority shareholders of subsidiaries with significant influence	**25,370**	**33,465**	**34,538**	33,465	26,197	33,465
Amounts due from companies controlled by a major shareholder and director (note a)	**25,896**	**23,557**	**30,593**	23,557	17,076	30,151
	51,266	**57,022**		57,022	43,273	

Analysed for reporting purposes as:

	2009 RMB'000	2008 RMB'000
Non-current assets (note b)	**34,582**	–
Current assets (note c)	**16,684**	57,022
	51,266	57,022

Note:

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

(b) The non-current amounts due from related companies represent advances to minority shareholders of certain subsidiaries of the Company. The amount is unsecured, interest-free and will be settled through future distribution of dividend by the subsidiary to the minority shareholder. The directors of the Company consider that the balance will not be repayable within one year, therefore, it is classified as non-current assets. Fair value adjustment amounting to RMB7,350,000 (2008: Nil) in respect of the interest-free advances to minority shareholders of subsidiaries, calculated by using an effective interest rate at 5.4% per annum and an average term of 2 years, has been recognised in the profit or loss in the year ended 31 December 2009.

(c) The amounts due from related companies are unsecured, interest-free and repayable on demand. The Group expects the amounts will be recoverable within one year from the end of the reporting period.

Included in the amounts due from related companies are trade receivables amounting to RMB29,121,000 (2008: RMB24,913,000) and the aged analysis is as follow:

	2009 RMB'000	2008 RMB'000
0 – 3 months	**1,238**	4,558
4 – 6 months	**1,556**	776
7 – 9 months	**1,036**	2,227
10 – 12 months	**4,847**	597
More than 1 year	**20,444**	16,755
	29,121	24,913

Owing the strategic relationship with the related companies, there is no formal credit policy applied to above balances by the Group and in the opinion of the directors of the Company, the above balances are not overdue.

For the amount due form companies controlled by a major shareholder and director, the counterparties are related companies that are financially sound and for the amounts due from minority shareholders of subsidiaries, the amounts will be settled through future distribution of dividend by subsidiaries, therefore, the Directors are of the opinion that the amounts due from related companies are not impaired.

31. Restricted Bank Deposits

	2009 RMB'000	2008 RMB'000
Current	**118,270**	79,817
Non-current	**2,200**	–
	120,470	79,817

	2009 RMB'000	2008 RMB'000
Bank deposits secured for:		
Bills facilities	**97,370**	39,430
Purchase contracts with suppliers	**20,900**	39,987
Rights of operation	**2,200**	400
	120,470	79,817

Restricted bank deposits classified as current assets represent the bank deposits pledged to banks to secure certain bills facilities granted to the Group by certain banks and purchase contracts with suppliers. Restricted bank deposits classified as non-current assets represent the bank deposits pledged to local government to secure the rights of operation. The restricted bank deposits carry fixed interest rate range from 0.36% to 1.98% per annum as at 31 December 2008. The restricted bank deposits will be released upon the settlement of relevant bill facilities and the expiry of purchase contracts or operation rights.

32. Cash and Cash Equivalents

Cash and cash equivalents includes bank balances with original maturities less than three months carrying interest at market rates which range from 0.36% to 1.71% (2008: 0.72% to 3.06%) per annum. The bank balances denominated in RMB are deposited with banks in the PRC and the conversion of such balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

At the end of the reporting period, the cash and cash equivalents denominated in foreign currencies other than the functional currency of respective group entities is RMB96,956,000 (2008: RMB2,142,000), of which RMB69,491,000 (2008: RMB849,000) and RMB27,398,000 (2008: RMB1,254,000) are denominated in USD and HKD respectively.

33. Non-current Assets Classified as Held for Sale

Pursuant to a share transfer agreement dated 9 April 2008 entered into between the Company as vendor and 咸陽市國有資產監督管理委員會, an independent third party, as purchaser, the Company agreed to sell its entire 40% equity interest of an associate, 咸陽新奧燃氣有限公司 to 咸陽市國有資產監督管理委員會 at a consideration of RMB82,000,000, of which, RMB75,000,000 was received in 2008 and the RMB7,000,000 was received in 2009. The transaction was completed during the year ended 31 December 2009 and gain on disposal amounting to RMB5,023,000 was recognised in the consolidated statement of comprehensive income.

34. Trade and Other Payables

	2009 RMB'000	2008 RMB'000
Trade payables aged:		
0 – 3 months	**631,472**	604,911
4 – 6 months	**144,349**	157,560
7 – 9 months	**133,426**	84,548
10 – 12 months	**59,929**	54,523
More than 1 year	**155,451**	112,511
Trade payables	**1,124,627**	1,014,053
Advances received from customers	**1,158,315**	1,122,741
Accrued charges and other payables	**488,632**	615,486
	2,771,574	2,752,280

The average credit period on purchases of goods is 30 to 90 days.

35. Amounts due to Related Companies

	2009 RMB'000	2008 RMB'000
Amounts due to minority shareholders of subsidiaries with significant influence	**2,438**	2,366
Amounts due to companies controlled by a major shareholder and director (note a)	**5,151**	19,469
Amount due to a shareholder	**13,672**	13,672
	21,261	35,507

Notes:

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

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

Included in the amounts due to related companies are trade payables amounting to RMB5,871,000 (2008: RMB20,398,000) and the aged analysis is as follow:

	2009 RMB'000	2008 RMB'000
0 – 3 months	**1,167**	16,721
4 – 6 months	**174**	–
7 – 9 months	**113**	–
10 – 12 months	**694**	2,030
More than 1 year	**3,723**	1,647
	5,871	20,398

36. Bank and Other Loans

	2009 RMB'000	2008 RMB'000
Bank loans		
Secured	**1,573,706**	1,848,086
Unsecured	**2,018,402**	1,441,046
	3,592,108	3,289,132
Other loans		
Secured	**36,000**	40,545
Unsecured	**96,493**	96,493
	132,493	137,038
	3,724,601	3,426,170
The bank and other loans are repayable:		
Within one year	**675,796**	1,239,450
Between one to two years	**349,817**	65,863
Between two to five years	**1,406,628**	494,252
More than five years	**1,292,360**	1,626,605
	3,724,601	3,426,170
Less: Amount due within one year shown under current liabilities	**675,796**	1,239,450
Amount due after one year	**3,048,805**	2,186,720

All the bank and other loans are denominated in the functional currency of respective group entities except for RMB1,092,512,000 (2008: RMB34,174,000) and RMB13,706,000 (2008: RMB125,786,000) which are denominated in USD and HKD respectively.

The secured bank and other loans are secured by pledge of property, plant and equipment, investment properties and rights on receiving fee income of certain subsidiaries and a jointly controlled entity as set out in Notes 48 and 49.

36. Bank and Other Loans *(continued)*

Details of the terms of the Group's borrowings are set out below:

At 31 December 2009

	Maturity date	Effective interest rate per annum	Carrying amount RMB'000
Fixed-rate borrowings			
4.78% – 5.04% unsecured RMB bank loan	26/1/2010 – 27/2/2010	4.91%	**615,890**
3.38% – 5.00% unsecured RMB other loans	12/6/2017	3.38% – 5.00%	**96,493**
Total fixed-rate borrowings			**712,383**
Floating-rate borrowings			
Unsecured RMB bank loan at PBOC base rate	20/3/2015-15/12/2020	4.55%	**310,000**
Secured RMB bank loan at PBOC base rate	10/6/2010-20/12/2020	6.28%	**1,560,000**
Unsecured USD bank loan at London Inter Bank Offer Rate plus 1.50%-2.20%	11/6/2011-30/11/2013	2.90%	**1,092,512**
Secured HKD bank loan of HKD17,633,000 at Prime rate minus 2.05%-2.20%	11/7/2013-27/9/2022	3.50%	**13,706**
Secured RMB other loan at prevailing market rate	15/12/2014-12/6/2017	4.10%	**36,000**
Total floating rate borrowings			**3,012,218**
Total borrowings			**3,724,601**

36. Bank and Other Loans *(continued)*

At 31 December 2008

	Maturity date	Effective interest rate per annum	Carrying amount RMB'000
Fixed-rate borrowings			
7.12% secured RMB bank loan	6/5/2009	7.12%	79,300
5.86% – 7.47% unsecured RMB bank loan	30/4/2009 – 2/10/2009	7.03%	207,872
3.38% – 5.00% unsecured RMB other loans	12/6/2017	3.38% – 5.00%	96,493
Total fixed-rate borrowings			383,665
Floating-rate borrowings			
Unsecured RMB bank loan at PBOC base rate	10/1/2009-15/12/2020	7.37%	1,199,000
Secured RMB bank loan at PBOC base rate	2/4/2009-20/12/2020	8.38%	1,643,000
Unsecured USD bank loan at London Inter Bank Offer Rate plus 1.50%	15/6/2009-15/12/2009	5.98%	34,174
Secured HKD bank loan of HKD125,000,000 at HIBOR plus 0.75%-1.15%	12/6/2009	2.58%	110,236
Secured HKD bank loan of HKD17,633,000 at Prime rate minus 2.05%-2.20%	11/7/2013-27/9/2022	3.50%	15,550
Secured RMB other loan at prevailing market rate	15/12/2014-12/6/2017	3.48%	40,545
Total floating rate borrowings			3,042,505
Total borrowings			3,426,170

37. Short-Term Debenture

Pursuant to the approval [2009] No. CP81 issued by National Association of Financial Market Institutional Investors ("NAFMII") dated 12 August 2009, NAFMII approved a wholly-owned subsidiary of the Company, 新奥(中國)燃氣投資有限公司, to issue short-term debenture with a maximum limit of RMB1,600,000,000 up to 12 August 2011.

On 27 August 2009, 新奥(中國)燃氣投資有限公司 issued the short-term debenture to third party with face value of RMB800,000,000. The unsecured debenture is unsecured, carried interests at 3.15% per annum is repayable within one year from the date of issue.

The balance at 31 December 2008 represents the short-term debenture issued to third party with face value of RMB600,000,000 and the accrued interests of RMB30,043,000. The amount was unsecured, carries interests at 5.95% per annum and was repaid during the year.

Details of the outstanding balance at the end of the reporting period are as follows:

	2009 RMB'000	2008 RMB'000
Short term debenture issued during the year and repayable within one year	**808,699**	630,043

38. Financial Guarantee Liability

As at 31 December 2009, the Group had outstanding guarantees issued to banks to secure loan facilities granted to an associate to the extent of RMB30,000,000 (2008: RMB60,000,000) for one to four-year loans, of which the amounts have been utilised at the end of the reporting period. The carrying amount of financial guarantee contracts as at 31 December 2009 is RMB3,383,000 (2008: RMB4,384,000).

39. Deferred Income

	2009 **RMB'000**	2008 RMB'000
At the beginning of the year	**20,770**	–
Amount received during the year	**286,749**	20,770
Release to profit and loss	**(11,104)**	–
At the end of the year	**296,415**	20,770

	2009 **RMB'000**	2008 RMB'000
Presented in the consolidated financial statements as:		
Current	**16,290**	692
Non-current	**280,125**	20,078
	296,415	20,770

(a) During the year ended 31 December 2008, the Group received subsidies amounting to RMB7,770,000 from an industrial customer to subsidize the construction cost of the main gas pipelines to the gas provision site and the Group received subsidies amounting to RMB13,000,000 from another industrial customer to subsidize the construction cost of the gas storage station. Both customers do not restrict the Group to use the assets constructed for the use of other customers but the Group are committed to provide the gas to these customers for a period from 5 to 20 years. Accordingly, the Group has deferred the subsidies received and released to the profit and loss upon the completion of the assets over the shorter of the committed gas provision period and the useful lives of the related assets. No income has been credited to the consolidated statement of comprehensive income during the year ended 31 December 2008 as the relevant pipelines are still under construction.

(b) During the year ended 31 December 2009, the PRC local governments in certain provinces in the PRC has issued relevant notice to the Group's subsidiaries governing the subsidiaries that an amount of the connection fee received by the Group's subsidiaries from its customers are for the construction cost of the Group's main gas pipelines. The directors of the Company consider that the arrangement indicates that the subsidiaries are required to provide the customer with ongoing access to a supply of gas. As the agreement under such arrangement does not specify a period for provision of the ongoing access to a supply of gas, fees received amounting to RMB286,749,000 are deferred and will release to the profit or loss over the estimated useful lives of the assets constructed.

40. Share Capital

	2009 Number of shares	2008 Number of shares	**2009 HK$'000**	2008 HK$'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	**1,009,759,397**	1,009,759,397	**100,976**	100,976
Issue of shares on exercise of share options	**40,390,000**	–	**4,039**	–
At end of the year	**1,050,149,397**	1,009,759,397	**105,015**	100,976

	2009 RMB'000	2008 RMB'000
Presented in financial statements as:		
At beginning of the year	**106,318**	106,318
Issue of shares on exercise of share options	**3,561**	–
At end of the year	**109,879**	106,318

On 8 June 2009, 40,390,000 shares were issued at exercise price of HK$6.65 per ordinary share in relation to the exercise of all outstanding share options as at 31 December 2008. These shares rank pari passu with the existing shares in all respects.

41. Guaranteed Notes

	2009 RMB'000	2008 RMB'000
Guaranteed notes	**1,351,209**	1,346,927

On 5 August 2005, the Company issued guaranteed notes in the aggregate principal amount of US$200,000,000 (equivalent to approximately RMB1,614,040,000) 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 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 costs.

42. Deferred Taxation

	2009 RMB'000	2008 RMB'000
Deferred tax assets	**33,678**	–
Deferred tax liabilities	**(180,859)**	(150,873)
	(147,181)	(150,873)

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	Capitalisation of interest in property, plant and equipment RMB'000	Undistributed retained profit of PRC entities from 1 January 2008 RMB'000 (note)	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	11,956	92,438	8,014	–	–	(1,579)	110,829
Acquisition of subsidiaries and businesses	–	5,187	–	–	–	–	5,187
(Credit) charge to profit and loss	–	(5,835)	18,828	23,112	(1,940)	–	34,165
Charge to other comprehensive income	692	–	–	–	–	–	692
At 31 December 2008	12,648	91,790	26,842	23,112	(1,940)	(1,579)	150,873
(Credit) charge to profit and loss	–	(4,666)	9,332	16,259	(33,581)	–	(12,656)
Charge to other comprehensive income	8,964	–	–	–	–	–	8,964
At 31 December 2009	**21,612**	**87,124**	**36,174**	**39,371**	**(35,521)**	**(1,579)**	**147,181**

Note: The amount represents deferred taxation in respect of the temporary differences attributable to the undistributed retained profits earned after 1 January 2008 by the group entities registered in the PRC. The amount has been provided based on the total amount of undistributed retained profit of PRC entities from 1 January 2008 attributable to non-PRC shareholders as the Director considers the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

42. Deferred Taxation *(continued)*

At the end of the reporting period, the Group has unused tax losses of RMB1,119,071,000 (2008: RMB781,722,000) 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:

	2009 RMB'000	2008 RMB'000
2009	–	13,369
2010	**24,714**	25,177
2011	**87,524**	88,484
2012	**205,974**	222,903
2013	**417,920**	431,789
2014	**382,939**	–
	1,119,071	781,722

At the end of the reporting period, the Group has other deductible temporary differences of RMB583,976,000 (2008: RMB411,572,000), which are mainly arising from impairment of trade and other receivables and unrealised profit within the Group. No deferred tax asset has been recognised in relation to such other deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

43. Share Option Scheme

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

The purpose of the share option 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 share option 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 share option 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.

43. Share Option Scheme *(continued)*

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

	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2009	Number of options Exercised during the year	Outstanding at 31.12.2009
Directors	15.3.2006	16.9.2006 – 15.3.2016	HK$6.65	5,200,000	(5,200,000)	–
	15.3.2006	16.3.2008 – 15.3.2016	HK$6.65	13,000,000	(13,000,000)	–
Employees	15.3.2006	16.9.2006 – 15.3.2016	HK$6.65	6,340,000	(6,340,000)	–
	15.3.2006	16.3.2008 – 15.3.2016	HK$6.65	15,850,000	(15,850,000)	–
				40,390,000	(40,390,000)	–
Exercisable at the end of the year						–

	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2008	Number of options Reallocated during the year (note)	Outstanding at 31.12.2008
Directors	15.3.2006	16.9.2006 – 15.3.2016	HK$6.65	7,900,000	(2,700,000)	5,200,000
	15.3.2006	16.3.2008 – 15.3.2016	HK$6.65	19,750,000	(6,750,000)	13,000,000
Employees	15.3.2006	16.9.2006 – 15.3.2016	HK$6.65	3,640,000	2,700,000	6,340,000
	15.3.2006	16.3.2008 – 15.3.2016	HK$6.65	9,100,000	6,750,000	15,850,000
				40,390,000	–	40,390,000
Exercisable at the end of the year						40,390,000

Note: Upon the resignation of two directors, Mr. Yang Yu and Qiao Limin on 18 November 2008, the outstanding options held by them are reallocated as they are still the employees of the Group upon after the resignation.

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 40,390,000 representing 4.0% of the shares of the Company in issue as at that date. No share option is outstanding as at 31 December 2009.

The Group recognised the total expense of RMB4,330,000 for the year ended 31 December 2008 in relation to share options granted by the Company in 2006 while no expenses is recognised in 2009 as all share options are exercised during the year ended 31 December 2009.

44. Acquisition of Businesses

(a) Acquisition during the year ended 31 December 2009

On 19 October 2009, the Group acquired 90% of the registered capital of 湖南瀏陽工業園開發投資有限公司, is engaged in sales of heat energy, at a cash consideration of approximately RMB21,897,000. 湖南瀏陽工業園開發投資有限公司 has changed its name as 長沙新奧熱力有限公司 upon the completion of acquisition by the Group. This transaction has been accounted for using the purchase method of accounting.

The fair value of assets and liabilities, the amounts of which approximates to the carrying values immediately before the acquisition, acquired in the transaction is set out as follows:

	RMB'000
Net assets acquired:	
Plant and equipment	19,555
Available-for-sale financial assets	100
Inventories	1,199
Trade and other receivables	1,373
Cash and cash equivalents	344
Trade and other payables	(1,503)
	21,068
Minority interests	(2,107)
Goodwill on acquisition	2,936
Total consideration satisfied by cash	21,897
Net cash outflow arising on acquisition:	
Cash consideration paid	21,897
Cash and cash equivalents acquired	(344)
	21,553

The goodwill arising on the acquisition of 長沙新奧熱力有限公司 is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

湖南瀏陽工業園開發投資有限公司 contributed a loss of RMB67,000 and revenue of RMB2,682,000 to the Group for the period between the date of acquisition and the end of the reporting period.

If the above acquisition had been completed on 1 January 2009, total group revenue for the year ended 31 December 2009 would have been RMB8,423,953,000 and profit for the year ended 31 December 2009 would have been RMB1,067,204,000. 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 2009, nor is it intended to be a projection of future results.

44. Acquisition of Businesses *(continued)*

(b) Acquisition during the year ended 31 December 2008

(i) On 5 May 2008, the Group acquired 90% of the registered capital of 廣州富城管道燃氣有限公司 at a cash consideration of RMB17,000,000. This transaction has been accounted for using the purchase method of accounting. The fair value of assets and liabilities acquired in the transaction is set out as follows:

	Carrying amount before combination RMB'000	Fair value adjustment RMB'000	Fair value RMB'000
Net assets acquired:			
Plant and equipment	429	–	429
Intangible assets			
– customer base	–	390	390
– right of operation	–	20,361	20,361
Inventories	681	–	681
Trade and other receivables	1,742	–	1,742
Cash and cash equivalents	847	–	847
Trade and other payables	(874)	–	(874)
Shareholder's loan	(4,500)	–	(4,500)
Deferred taxation	–	(5,187)	(5,187)
	(1,675)	15,564	13,889
Minority interests			(1,389)
Total consideration, satisfied by cash			12,500
Net cash outflow arising on acquisition:			
Cash consideration paid			(12,500)
Cash paid on settlement of shareholder's loan			(4,500)
Cash and cash equivalents acquired			847
			(16,153)

廣州富城管道燃氣有限公司contributed a loss of RMB3,182,000 and revenue of RMB2,128,000 to the Group for the period between the date of acquisition and the end of the reporting period.

44. Acquisition of Businesses *(continued)*

(b) Acquisition during the year ended 31 December 2008 *(continued)*

(ii) On 14 October 2008, the Group acquired 100% of the registered capital of 許昌市綠色環保汽車技術有限公司, which is engaged in conversion of fuel pipes of vehicles business, at a cash consideration of RMB1 from four individuals, who are independent third parties to the Group. This transaction has been accounted for using the purchase method of accounting. The fair value of assets and liabilities, the amounts of which approximates to the carrying values immediately before the acquisition, acquired in the transaction is set out as follows:

	RMB'000
Net assets acquired:	
Plant and equipment	45
Inventories	343
Trade and other receivables	181
Cash and cash equivalents	360
Trade and other payables	(266)
	663
Discount on acquisition	(663)
Total consideration	–
Net cash inflow arising on acquisition, representing cash and cash equivalents acquired	360

許昌市綠色環保汽車技術有限公司 contributed a profit of RMB121,000 and revenue of RMB726,000 to the Group for the period between the date of acquisition and the end of the reporting period.

44. Acquisition of Businesses *(continued)*

(b) Acquisition during the year ended 31 December 2008 *(continued)*

(iii) On 1 December 2008, the Group acquired additional 44% of the registered capital of an existing associate, Beihai Xinao, from a jointly controlled entity, Dongguan Xinao, at a cash consideration of RMB69,200,000. This transaction has been accounted for using the purchase method of accounting. The provisional fair value of assets and liabilities acquired, which approximates to the carrying amount before the acquisition, in the transaction is set out as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	150,516
Prepaid lease payments	5,011
Inventories	11,222
Trade and other receivables	82,373
Cash and cash equivalents	533
Loan from a shareholder	(138,000)
Trade and other payables	(6,831)
	104,824
Minority interest	(18,868)
Interest in an associate	(44,744)
Elimination of share of profit on gain on disposal of Beihai Xinao recognised by Dongguan Xinao, net off against share of result of jointly control entities for the year 2008	12,692
Goodwill	15,296
Total consideration, included in other payable as at 31 December 2008 and is settled in 2009	69,200
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	533

Beihai Xinao is engaged in production and sale of LNG in the southern area of the PRC. Due to the limited supply of LNG in the southern area of the PRC, the Directors consider that the goodwill arising from the acquisition of Beihai Xinao is resulted from the benefit from secured LNG supply to the Group and the profitability through sale to customers in Guangxi and Guangdong Provinces.

Beihai Xinao contributed a loss of RMB831,000 and no revenue to the Group for the period between the date of acquisition and the end of the reporting period.

If the above acquisitions had been completed on 1 January 2008, total group revenue for the year ended 31 December 2008 would have been RMB8,305,075,000 and profit for the year ended 31 December 2008 would have been RMB869,754,000. 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 2008, nor is it intended to be a projection of future results.

45. Disposal of a Subsidiary

On 21 March 2009, the Group disposed of its subsidiary, Nantong Xinneng Gas Development Company Limited (南通新能氣體開發有限公司) to an independent third party to the Group at a consideration of RMB800,000. The net assets of the subsidiary disposed of at the date of disposal were as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	4,797
Inventories	70
Trade and other receivables	2,586
Cash and cash equivalents	25
Trade and other payables	(3,526)
	3,952
Minority interests	(1,581)
Loss on disposal	(1,571)
Total consideration satisfied by cash	800
Net cash inflow arising on disposal:	
Cash consideration	800
Cash and cash equivalents disposed of	(25)
	775

46. Commitments

(a) Capital commitments

	2009 RMB'000	2008 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for	**22,851**	45,408
Capital commitment in respect of investments in joint ventures	**145,721**	32,400
Group's share of capital commitments contracted but not provide in respect of its joint ventures	**–**	1,076

(b) Other commitments

As at 31 December 2009, the Group has commitment amounting to RMB10,788,000 (2008: RMB4,660,000) in respect of acquisition of land use rights in the PRC.

47. Lease Commitments

The Group as lessee

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

	2009 RMB'000	2008 RMB'000
Within one year	17,028	19,942
In the second to fifth year inclusive	22,806	30,711
Over five years	31,498	26,571
	71,332	77,224

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

The Group as lessor

The Group's investment properties are held for rental purposes. The properties are expected to generate rental yields of 4.8% (2008: 4.0%) on an ongoing basis. All of the properties held have committed tenants for an average term of one year.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2009 RMB'000	2008 RMB'000
Within one year	2,791	1,902
In the second to fifth year inclusive	3,052	3,209
Over five years	1,073	1,232
	6,916	6,343

48. Pledge of Assets

At the end of the reporting period, the Group pledged certain assets as securities for bank loans, bill facilities and contraction granted to the Group, associates and jointly controlled entities as follows:

	2009 RMB'000	2008 RMB'000
Carrying amount of:		
Property, plant and equipment	27,290	87,783
Investment properties	22,188	29,449
Restricted bank deposits	120,470	79,817

In addition to the above, the Group has also pledged its rights to receive gas connection and gas supply fee income of certain subsidiaries in favour of banks to secure banking facilities amounting to RMB1,950,000,000 (2008: RMB1,950,000,000) granted to the Group and RMB1,465,000,000 (2008: RMB1,505,000,000) of which is utilised up to 31 December 2009.

49. Related Party Transactions

Apart from the related party balances as stated in Notes 25, 29, 30 and 35, the Group had the following transactions with certain related parties:

	2009 RMB'000	2008 RMB'000
Nature of transaction		
Associates:		
– Sales of gas to	**2,768**	32,397
– Sales of materials to	**4,135**	3,082
– Purchase of gas from	**16,345**	28,001
– Purchase of materials from	**2,337**	2,404
– Provision of gas transportation services to	**11,697**	11,748
– Loan interest received from	**–**	8,819
Jointly controlled entities:		
– Sales of gas to	**163,385**	223,973
– Sales of materials to	**66,136**	63,338
– Purchase of gas from	**198,071**	136,047
– Provision of gas transportation services to	**231,351**	179,869
– Loan interest received from	**4,933**	5,735
– Purchase of materials – dimethyl ether ("DME") from	**–**	3,197
– Payment made on behalf of the Group	**3,461**	2,866
– Provision of gas connection services to	**25,694**	–
– Provision of supporting services by	**1,158**	–
Companies controlled by Mr. Wang:		
– Sales of gas to	**2,606**	2,021
– Purchase of materials from	**36**	–
– Purchase of vehicles from	**120**	–
– Purchase of materials – DME from	**12,263**	288,210
– Provision of gas connection service to	**5,519**	2,170
– Provision of property management services by	**4,320**	4,419
– Provision of property management services to	**436**	436
– Provision of decoration services by	**–**	3,500
– Lease of premises to	**1,039**	1,039
– Lease of premises from	**2,596**	2,596
– Provision of supporting services by	**22,071**	20,117
– Provision of maritime transportation services by	**18,874**	–
– Donate to (note)	**–**	4,880
Minority shareholders of subsidiaries with significant influence:		
– Provision of gas connection service to	**–**	1,546
– Provision of construction service by	**1,860**	1,788
– Loan advance to	**979**	2,775
– Lease of premises from	**1,496**	1,244
– Lease of land from	**1,572**	3,520
– Provision of transportation services by	**920**	901
– Interest receive from	**550**	–
– Purchase of gas from	**1,505**	–

Note: Donation is made to a non-profit making organization, 新奧慈善基金會, of which Mr. Wang is the legal representative up to April 2009.

49. Related Party Transactions *(continued)*

In addition, Mr. Wang and Ms. Zhao Baoju, spouse of Mr. Wang has provided personal guarantees to the extent of RMB300,000,000 (2008: RMB450,000,000) and a related company has provided corporate guarantee to the extent of RMB100,000,000 (2008: RMB240,000,000) to certain banks for banking facilities granted to the Group as at 31 December 2009.

An jointly controlled entity has pledged its rights to receive gas supply fee income in favour of a bank to secure banking facility amounting to RMB100,000,000 granted to the Group and RMB20,000,000 (2008: RMB95,000,000) of which is utilised up to 31 December 2009.

Compensation of key management personnel

The other remuneration of directors and other members of key management during the year was disclosed in Note 12.

50. Segment Information

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group and regularly reviewed by the chief operating decision maker, the Company's Chief Executive Officer (the "CEO"), in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. In the past, the Group's primary reporting format was business segments.

Information reported to the CEO for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services. As this is also the basis of designation of the Group's reportable segments under HKAS 14, the application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments.

The application of HKFRS 8 leads to change in basis of measurement of segment profit. In prior year, segment profit reresented the gross profit earned by each segment with the allocation of certain selling expenses, other income and other gains or losses relevant to the segment. Segment profit under HKFRS 8 and reviewed by CEO now only represents the gross profit earned by each segment. This is the measure reported to the Chief operating decision maker for the purpose of resource allocation and performance assessment.

Segment information reported for the prior period has been restated to conform with current period presentation.

The following is an analysis of the Group's revenue and results by operating segment for the periods under review:

Year ended 31 December 2009

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	Consolidation RMB'000
Revenue from external customers	2,553,755	4,077,527	897,121	86,814	797,663	8,412,880
Segment profit before depreciation and amortisation	1,527,183	1,089,175	8,230	19,018	198,554	2,842,160
Depreciation and amortisation	(67,921)	(214,984)	(4,223)	(2,035)	(15,097)	(304,260)
Segment profit	1,459,262	874,191	4,007	16,983	183,457	2,537,900
Other income						104,586
Selling expenses						(159,025)
Administrative expenses						(857,047)
Other gains and losses						(132,642)
Share of results of associates						5,066
Share of results of jointly controlled entities						210,719
Finance costs						(328,449)
Profit before taxation						1,381,108

50. Segment Information *(continued)*

Year ended 31 December 2008

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	Consolidation RMB'000
Revenue from external customers	2,421,617	3,094,767	2,009,304	78,660	661,160	8,265,508
Segment profit (loss) before depreciation and amortisation	1,496,436	849,355	(50,423)	19,285	176,710	2,491,363
Depreciation and amortisation	(34,940)	(196,400)	(4,224)	(2,522)	(6,736)	(244,822)
Segment profit (loss)	1,461,496	652,955	(54,647)	16,763	169,974	2,246,541
Other income						213,882
Selling expenses						(130,723)
Administrative expenses						(1,040,571)
Other gains and losses						22,419
Share of results of associates						7,347
Share of results of jointly controlled entities						192,828
Finance costs						(381,044)
Profit before taxation						1,130,679

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

2009

	Gas connection RMB'000	**Sales of piped gas RMB'000**	**Distributions of bottled liquefied petroleum gas RMB'000**	**Sales of gas appliances RMB'000**	**Vehicle gas refuelling stations RMB'000**	**Consolidation RMB'000**
Assets:						
Segment assets	**2,270,529**	**7,454,597**	**102,400**	**131,982**	**422,239**	**10,381,747**
Interests in associates						**323,880**
Interests in jointly controlled entities						**1,015,641**
Unallocated corporate assets						**4,982,025**
Consolidated total assets						**16,703,293**
Liabilities:						
Segment liabilities	**2,814,014**	**700,366**	**16,641**	**54,663**	**48,849**	**3,634,533**
Unallocated corporate liabilities						**6,590,503**
Consolidated total liabilities						**10,225,036**

50. Segment Information *(continued)*

2008

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	Consolidation RMB'000
Assets:						
Segment assets	1,929,547	7,072,727	334,702	132,787	355,196	9,824,959
Interests in associates	–	–	–	–	–	292,438
Interests in jointly controlled entities	–	–	–	–	–	757,620
Unallocated corporate assets						3,699,301
Consolidated total assets						14,574,318
Liabilities:						
Segment liabilities	1,945,541	635,747	30,525	69,399	24,835	2,706,047
Unallocated corporate liabilities						6,426,831
Consolidated total liabilities						9,132,878

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than unallocated corporate assets, mainly include unallocated property, plant and equipment, investment properties, other receivables, interest in associates and interest in jointly controlled entities; and
- all liabilities are allocated to reportable segments other than unallocated corporate liabilities, mainly include other payable, taxable payable and deferred taxation.

For the purpose of presenting segment revenue, result, assets and liabilities, the Group allocates certain property, plant and equipment and prepaid lease payments to certain segments without allocating the related depreciation and release of prepaid lease payments to those segments.

OTHER SEGMENT INFORMATION

	Gas connection RMB'000	**Sales of piped gas** RMB'000	**Distributions of bottled liquefied petroleum gas** RMB'000	**Sales of gas appliances** RMB'000	**Vehicle gas refuelling stations** RMB'000	**Segment total** RMB'000	**Adjustments (Note a)** RMB'000	**Total** RMB'000
Amounts included in the measure of segment profit or loss or segment assets:								
2009								
Additions to non-current assets (Note b)	129,929	1,250,992	3,791	6,134	164,036	1,554,882	169,803	1,724,685
Depreciation and amortisation	67,921	214,984	4,223	2,035	15,097	304,260	76,147	380,407
2008								
Additions to non-current assets (Note b)	155,889	1,070,931	98,123	4,632	89,633	1,419,208	56,677	1,475,885
Depreciation and amortisation	34,940	196,400	4,224	2,522	6,736	244,822	59,077	303,899

Notes:

(a) Adjustments represent amounts incurred for corporate headquarters and are not allocated to operating segments.

(b) Non-current assets include property, plant and equipment, prepaid lease payments, goodwill and intangible assets.

The Group's operations are located in the PRC and more than 90% of the Group's non-current assets excluding financial instruments and deferred tax assets are located in the PRC. The Group's revenue from external customers are generated from the PRC.

There is no single customer contribute more than 10% of the whole revenue of the Company.

51. Retirement Benefits Scheme

	2009 **RMB'000**	2008 RMB'000
Retirement benefit contribution made during the year	**38,540**	31,977

According to the relevant laws and regulations in the PRC, the PRC subsidiaries of the Company 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. 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 these retirement benefits schemes is to make the required contributions under the respective schemes. During the two years ended 31 December 2009, there were no forfeited contributions, which arose upon employees leaving the retirement benefits schemes, available to reduce the contribution payable in the future periods.

52. Events after the Reporting Period

Subsequent to the end of the reporting period, the Group has acquired the equity interest of certain companies established in the PRC. Details of acquisition are as follows:

(a) The Group entered into an agreement with an independent third party to acquire 72.8% equity interest in 江蘇大通管輸天然氣有限公司, which is engaged in the operation of intermediate pipelines, at a cash consideration of USD9,362,400 in December 2009. Upon the completion of the transaction in January 2010, the entity becomes a subsidiary of the Group;

(b) Pursuant to an agreement entered into between the Group and an independent third party in December 2007, the Group agreed to acquire 80% equity interest in 山東七星液化石油氣有限公司, which is engaged in sales of bottled liquefied petroleum gas business at a cash consideration of RMB29,000,000 in December 2007. The transaction completed in January 2010 upon getting approval from the corresponding PRC local government and the entity becomes a subsidiary of the Group;

(c) The Group has acquired 100% equity interest of 廣州市富都管道燃氣有限公司, which is engaged in sales of piped gas business, from three independent parties for the cash consideration of RMB268,000,000. Upon the completion of the transaction in February 2010, the entity becomes a wholly owned subsidiary of the Group; and

(d) The Group has finished the acquisition of 80% equity interest of 盤錦遼濱盛態燃氣有限公司, which is engaged in sales of piped gas business, from three independent parties for the cash consideration of RMB12,600,000. Upon the completion of the transactions in March 2010, it becomes the subsidiaries of the Group.

As at the date of this report, the Group is still not yet in a position to assess the fair values of the net assets to be acquired and goodwill arising from the above transactions, therefore, such information are not disclosed.

53. 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 2009	2008	Principal activities
Xinao Gas Investment Group Limited	British Virgin Island	US$1,000	**100.00%**	100.00%	Investment holding
北海新奧燃氣有限公司 Beihai Xinao Gas Company Limited*	PRC	RMB120,000,000	**82.00%**	82.00%	Production and sales of LNG and compressed natural gas ("CNG"); design and installation of piped gas facilities; production, sales and repair of gas equipment and appliances
北京新奧燃氣有限公司 Beijing Xinao Gas Company Limited*	PRC	US$1,195,600	**95.00%**	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	US$23,800,000	**100.00%**	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	RMB9,900,000	**80.00%**	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	RMB9,900,000	**90.00%**	90.00%	Sales of piped gas
蚌埠新奧燃氣有限公司 Bengbu Xinao Gas Company Limited*	PRC	RMB110,000,000	**70.00%**	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	US$600,000	**70.00%**	70.00%	Sales of piped gas and bottled liquefied petroleum gas
蚌埠新奧清潔能源發展有限公司 Bengbu Xinao Clean Energy Development Company Limited#	PRC	RMB50,000,000	**100.00%**	100.00%	Sales of gas and gas appliance; storage, transportation and sales of DME
蚌埠市高樂登液化氣有限責任公司 Bengbu City Gaoledeng Liquefied Gas Company Limited	PRC	RMB1,160,000	**–**	70.00%	Sales of liquefied gas and gas appliance
蚌埠市鑫達液化氣有限責任公司 Bengbu Xinda Liquefied Gas Company Limited	PRC	RMB500,000	**–**	70.00%	Sales of liquefied gas and gas appliance

53. 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 2009	2008	Principal activities
濱州新奧燃氣工程有限公司 Binzhou Xinao Gas Engineering Company Limited#	PRC	US$600,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
亳州新奧燃氣有限公司 Bozhou Xinao Gas Company Limited*	PRC	US$3,200,000	**70.00%**	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	US$800,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure
巢湖新奧燃氣有限公司 Chaohu Xinao Gas Company Limited*	PRC	US$5,784,000	**100.00%**	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	US$420,000	**100.00%**	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	US$540,000	**100.00%**	100.00%	Production and sale of gas for vehicle use
長沙新奧燃氣有限公司 Changsha Xinao Gas Company Limited*	PRC	RMB120,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure and sales of piped gas
長沙星沙新奧燃氣有限公司 Changsha Xingsha Xinao Gas Company Limited	PRC	RMB22,000,000	**46.75%**	46.75%	Investment in gas pipeline infrastructure and sales of piped gas
長沙星沙新奧燃氣發展有限公司 Changsha Xingsha Xinao Gas Development Company Limited*	PRC	RMB8,000,000	**46.75%**	46.75%	Exploitation and sales of piped gas
長沙新奧熱力有限公司 Changsha Xinao Gas Heat Energy Company Limited*	PRC	RMB35,000,000	**90.00%**	–	Sale of heat energy
常州新奧燃氣發展有限公司 Changzhou Xinao Gas Development Company Limited*	PRC	US$600,000	**60.00%**	60.00%	Sales of piped gas

53. 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 2009	2008	Principal activities
常州新奧燃氣工程有限公司 Changzhou Xinao Gas Engineering Company Limited*	PRC	US$5,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
滁州新奧燃氣有限公司 Chuzhou Xinao Gas Company Limited*	PRC	US$7,100,000	**90.00%**	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	US$600,000	**93.00%**	93.00%	Investment in gas pipeline infrastructure
鳳陽新奧燃氣有限公司 Fengyang Xinao Gas Company Limited#	PRC	US$2,000,000	**100.00%**	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	US$600,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
福州新奧清潔能源有限公司 Fuzhou Xinao Clean Energy Limited#	PRC	US$12,000,000	**100.00%**	100.00%	Sales of CNG, LPG and LNG
固鎮新奧燃氣有限公司 Guzhen Xinao Gas Company Limited#	PRC	RMB4,500,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
固鎮新奧燃氣發展有限公司 Guzhen Xinao Gas Development Company Limited#	PRC	RMB15,000,000	**100.00%**	100.00%	Sales of piped gas and gas appliance
貴港新奧燃氣有限公司 Guigang Xinao Gas Company Limited#	PRC	US$3,500,000	**100.00%**	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	US$500,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
桂林新奧燃氣有限公司 Guilin Xinao Gas Company Limited*	PRC	US$6,000,000	**60.00%**	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	US$120,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
廣州富城管道燃氣有限公司 Guangzhou Fucheng Piped Gas Company Limited*	PRC	RMB2,000,000	**90.00%**	90.00%	In business preparation process. Not yet defined.

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53. 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 2009	2008	Principal activities
邯鄲新奧車用燃氣有限公司 HanDan XinAo Hanyun Vehicle Gas Company Limited*	PRC	RMB30,000,000	**51.00%**	51.00%	Construction and operation of vehicle gas refuelling stations
海安新奧燃氣有限公司 Haian Xinao Gas Company Limited#	PRC	US$1,200,000	**100.00%**	100.00%	Sales of piped gas
海寧新奧燃氣有限公司 Haining Xinao Gas Company Limited*	PRC	US$5,000,000	**80.00%**	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	US$800,000	**86.00%**	86.00%	Sales of piped gas
海鹽新奧燃氣有限公司 Haiyan Xinao Gas Company Limited#	PRC	US$9,000,000	**100.00%**	100.00%	Sales of piped gas and gas appliance
杭州蕭山管道燃氣發展有限公司 Hangzhou Xiaoshan Piped Gas Development Company Limited*	PRC	RMB10,000,000	**95.00%**	95.00%	Investment in gas pipeline infrastructure and sales of piped gas
衡水新奧車用燃氣有限公司 Hengshui Xinao Vehicle Gas Company Limited*	PRC	RMB16,000,000	**80.00%**	80.00%	Construction and operation of vehicle gas refuelling stations
葫蘆島新奧燃氣有限公司 Huludao Xinao Gas Company Limited*	PRC	US$1,207,700	**90.00%**	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	US$1,200,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
湖南新奧燃氣儲配有限公司 Hunan Xinao Gas Storage Company Limited	PRC	RMB53,000,000	**74.50%**	–	Design and installation of gas equipments
湖南新奧清潔能源有限公司 Hunan Xinao Clean Energy Company Limited#	PRC	US$3,000,000	**100.00%**	100.00%	Construction and operation of vehicle gas refuelling stations
湖南銀通科技有限責任公司 Hunan Yintong Technology Company Limited*	PRC	RMB9,803,900	**51.00%**	51.00%	Research and development, production and sale of IC card metre and software system

53. 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 2009	2008	Principal activities
淮安新奧燃氣有限公司 Huaian Xinao Gas Company Limited*	PRC	RMB35,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas and bottled liquefied petroleum gas
淮安新奧燃氣發展有限公司 Huaian Xinao Gas Development Company Limited#	PRC	RMB7,000,000	**100.00%**	100.00%	Sales of piped gas and gas appliance
淮安新奧淮陰車用燃氣有限公司 Huaian Xinao Huaiyin Vehicle Gas Company Limited#	PRC	US$1,000,000	**100.00%**	–	Technology research and development and promotion of compressed natural gas (“CNG”)
淮安新奧清河車用燃氣有限公司 Huaian XinAo Qinghe Gas Vehicle Company Limited#	PRC	US$1,000,000	**100.00%**	100.00%	Sales of CNG for vehicle use and related equipments; construction and operation of vehicle gas refuelling stations
淮安新奧清浦車用燃氣有限公司 Huaian Xinao Qingpu Vehicle Gas Company Limited#	PRC	US$1,000,000	**100.00%**	–	Technology research and development and promotion of compressed natural gas (“CNG”)
惠安縣燃氣有限公司 Huian County Gas Company Limited*	PRC	RMB20,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
惠安新奧燃氣有限公司 Huian Xinao Gas Company Limited	PRC	RMB10,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
晉江新奧燃氣有限公司 Jinjiang Xinao Gas Company Limited	PRC	RMB60,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
晉江新奧燃氣管道燃氣輸配有限公司 Jinjiang Xinao Gas Pipeline Transmission Company Limited*	PRC	RMB30,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
金華新奧燃氣有限公司 Jinhua Xinao Gas Company Limited#	PRC	US$5,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure

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53. 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 2009	2008	Principal activities
金華新奧燃氣發展有限公司 Jinhua Xinao Gas Development Company Limited#	PRC	US$600,000	**100.00%**	100.00%	Sales of piped gas
開封新奧燃氣有限公司 Kaifeng Xinao Gas Company Limited*	PRC	US$10,000,000	**90.00%**	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	US$800,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
來安新奧燃氣有限公司 Laian Xinao Gas Company Limited*	PRC	US$2,000,000	**95.00%**	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	US$600,000	**95.00%**	95.00%	Investment in gas pipeline infrastructure
萊陽新奧燃氣有限公司 Laiyang Xinao Gas Company Limited*	PRC	US$5,000,000	**95.00%**	95.00%	Sales of piped gas
萊陽新奧燃氣工程有限公司 Laiyang Xinao Gas Project Company Limited*	PRC	US$800,000	**96.50%**	96.50%	Investment in gas pipeline infrastructure
萊陽新奧車用燃氣有限公司 Laiyang Xinao Vehicle Gas Company Limited#	PRC	US$2,000,000	**100.00%**	100.00%	Construction and operation of vehicle gas refuelling stations
蘭溪新奧燃氣有限公司 Lanxi Xinao Gas Company Limited*	PRC	US$1,500,000	**80.00%**	80.00%	Investment in gas pipeline infrastructure and sales of piped gas
廊坊新奧燃氣有限公司 Langfang Xinao Gas Company Limited#	PRC	US$9,333,900	**100.00%**	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	US$360,000	**100.00%**	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	US$120,000	**100.00%**	100.00%	Development, production and sale of IC card metre and software system

53. 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 2009	2008	Principal activities
連雲港新奧燃氣有限公司 Lianyungang Xinao Gas Company Limited*	PRC	RMB49,512,100	**70.00%**	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	RMB10,000,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure
聊城新奧燃氣有限公司 Liaocheng Xinao Gas Company Limited*	PRC	US$1,933,200	**90.00%**	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	US$1,200,000	**93.00%**	93.00%	Investment in gas pipeline infrastructure
龍游新奧燃氣有限公司 Longyou Xinao Gas Company Limited*	PRC	US$3,000,000	**90.00%**	–	Investment in gas pipeline infrastructure
六安新奧燃氣有限公司 Luan Xinao Gas Company Limited#	PRC	RMB20,000,000	**100.00%**	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	US$800,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
鹿泉新奧車用燃氣有限公司 Luquan Xinao Vehicle Gas Company Limited#	PRC	US$880,000	**100.00%**	100.00%	Production and sale of compressed natural gas
灤縣新奧燃氣有限公司 Luanxian Xinao Gas Company Limited	PRC	RMB5,000,000	**100.00%**	–	Investment in gas pipeline infrastructure and sales of piped gas
洛陽市明炬燃氣工程有限責任公司 Luoyang City Mingju Gas Engineering Company Limited	PRC	RMB5,005,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure
洛陽市通奧管道燃氣器具有限公司 Luoyang City Tongao Piped Gas Appliance Company Limited	PRC	RMB786,000	**70.00%**	70.00%	Production and sale of gas appliance
洛陽市中天燃氣工程設計有限公司 Luoyang City Zhongtian Gas Engineering Design Company Limited	PRC	RMB1,000,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure

53. 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 2009	2008	Principal activities
洛陽新奧華油燃氣有限公司 Luoyang Xinao Huayou Gas Company Limited*	PRC	RMB160,000,000	**70.00%**	70.00%	Sales of natural gas, LPG and coal gas
洛陽新奧液化氣有限公司 Luoyang Xinao Liquefied Gas Limited#	PRC	RMB16,090,000	**100.00%**	100.00%	Sales of liquefied gas and gas appliance of piped gas
南安新奧燃氣有限公司 Nanan Xinao Gas Company Limited*	PRC	RMB10,000,000	**42.00%** (note c)	42.00% (note c)	Investment in gas pipeline infrastructure
南安市燃氣有限公司 Nanan City Gas Company Limited	PRC	RMB30,000,000	**42.00%** (note b)	42.00% (note b)	Investment in gas pipeline infrastructure and sales of piped gas
南昌新奧清潔能源有限公司 Nanchang Xinao Clean Energy Company Limited#	PRC	US$7,500,000	**100.00%**	100.00%	Provision of regional energy solutions
南昌新奧燃氣有限公司 Nanchang Xinao Gas Company Limited#	PRC	US$3,500,000	**100.00%**	–	Investment in gas pipeline infrastructure and sales of piped gas
南寧新奧清潔能源有限公司 Nanning Xinao Clean Energy Company Limited*	PRC	RMB10,000,000	**85.00%**	85.00%	Construction and operation of vehicle gas refuelling stations; production and sales of clean energy
南通新能氣體開發有限公司 Nantong Xinneng Gas Development Company Limited*	PRC	RMB6,000,000	**–**	60.00%	Sales of CNG, LNG and gas appliance
南通新奧燃氣工程有限公司 Nantong Xinao Gas Technology Company Limited*	PRC	US$800,000	**100.00%**	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	US$5,000,000	**100.00%**	100.00%	Construction and operation of vehicle gas refuelling stations
青島新奧燃氣有限公司 Qingdao Xinao Gas Company Limited*	PRC	RMB20,000,000	**90.00%**	90.00%	Sales of piped gas
青島新奧膠城燃氣有限公司 Qingdao Xinao Jiaocheng Gas Company Limited*	PRC	US$5,000,000	**90.00%**	90.00%	Sales of piped gas

53. 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 2009	2008	Principal activities
青島新奧膠城燃氣工程有限公司 Qingdao Xinao Jiaocheng Gas Engineering Company Limited#	PRC	HK$4,500,000	**100.00%**	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	US$4,400,000	**90.00%**	90.00%	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	US$1,000,000	**100.00%**	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	US$1,610,000	**90.00%**	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	US$800,000	**93.00%**	93.00%	Investment in gas pipeline infrastructure
青島新奧燃氣設施開發有限公司 Qingdao Xinao Gas Establishment Exploiture Company Limited*	PRC	US$600,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
衢州新奧燃氣有限公司 Quzhou Xinao Gas Company Limited*	PRC	RMB50,000,000	**90.00%**	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	US$600,000	**90.00%**	90.00%	Sales of piped gas
泉州市燃氣有限公司 Quanzhou City Gas Company Limited*	PRC	RMB450,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
泉州市泉港新奧燃氣有限公司 Quanzhou Quangang Xinao Gas Company Limited*	PRC	RMB20,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
泉州市燃氣輸配有限公司 Quanzhou Gas Transmission Company Limited*	PRC	RMB30,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
全椒新奧燃氣有限公司 Quanjiao Xinao Gas Company Limited#	PRC	US$1,590,000	**100.00%**	100.00%	Sales of piped gas and gas appliance

53. 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 2009	2008	Principal activities
全椒新奥燃氣工程有限公司 Quanjiao Xinao Gas Engineering Company Limited#	PRC	US$500,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
日照新奥燃氣有限公司 Rizhao Xinao Gas Company Limited*	PRC	US$5,600,000	**80.00%**	80.00%	Sales of piped gas
日照新奥燃氣工程有限公司 Rizhao Xinao Gas Engineering Company Limited*	PRC	US$1,210,000	**86.00%**	86.00%	Investment in gas pipeline infrastructure
日照新奥實業有限公司 Rizhao Xinao Industry Company Limited#	PRC	RMB5,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
容城新奥燃氣有限公司 Rongcheng Xinao Gas Company Limited#	PRC	RMB5,350,000	**100.00%**	100.00%	Exploitation and sales of piped gas and gas appliance
山西沁水新奥燃氣有限公司 Shanxi Qinshui Xinao Gas Company Limited#	PRC	RMB50,000,000	**100.00%**	100.00%	Production and sales of LNG
商丘新奥燃氣有限公司 Shangqiu Xinao Gas Company Limited#	PRC	US$7,000,000	**100.00%**	100.00%	Sales of piped gas
商丘新奥燃氣工程有限公司 Shangqiu Xinao Gas Engineering Company Limited#	PRC	US$3,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
汕頭新奥燃氣有限公司 Shantou Xinao Gas Company Limited*	PRC	RMB34,580,000	**51.00%**	51.00%	Sales of piped gas
石家莊新奥燃氣有限公司 Shijiazhuang Xinao Gas Company Limited*	PRC	RMB300,000,000	**65.00%**	65.00%	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奥車用燃氣有限公司 Shijiazhuang Xinao Vehicle Gas Company Limited*	PRC	RMB1,000,000	**65.00%**	65.00%	Production and sale of gas for vehicle use
石獅新奥燃氣有限公司 Shishi Xinao Gas Company Limited	PRC	RMB10,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas

53. 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 2009	2008	Principal activities
石獅新奧燃氣發展有限公司 Shishi Xinao Gas Development Company Limited*	PRC	RMB10,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
四會新奧燃氣有限公司 Sihui Xinao Gas Company Limited#	PRC	RMB28,000,000	**100.00%**	–	Sales of piped gas
台州新奧燃氣有限公司 Taizhou Xinao Gas Company Limited*	PRC	US$2,500,000	**80.00%**	80.00%	Investment in gas pipeline infrastructure and sales of piped gas
台州新奧燃氣工程有限公司 Taizhou Xinao Gas Engineering Company Limited*	PRC	US$2,500,000	**80.00%**	80.00%	Transmission of gas; design and installation of gas equipments
泰興新奧燃氣有限公司 Taixing Xinao Gas Company Limited*	PRC	US$1,200,000	**90.00%**	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	US$800,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
天津新奧燃氣有限公司 Tianjin Xinao Gas Company Limited#	PRC	RMB$4,000,000	**100.00%**	–	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	US$3,000,000	**80.00%**	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	US$600,000	**80.00%**	80.00%	Investment in gas pipeline infrastructure
溫州新奧燃氣有限公司 Wenzhou Xinao Gas Company Limited#	PRC	US$3,100,000	**100.00%**	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	US$700,000	**100.00%**	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	US$9,500,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas

53. 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 2009	2008	Principal activities
湘潭新奥燃氣有限公司 Xiangtan Xinao Gas Company Limited*	PRC	RMB70,000,000	**85.00%**	85.00%	Investment in gas pipeline infrastructure and sales of piped gas
新鄉新奥燃氣有限公司 Xinxiang Xinao Gas Company Limited*	PRC	US$10,000,000	**95.00%**	95.00%	Sales of piped gas and bottled liquefied petroleum gas
新鄉新奥燃氣工程有限公司 Xinxiang Xinao Gas Engineering Company Limited*	PRC	US$1,200,000	**96.50%**	96.50%	Investment in gas pipeline infrastructure
興化新奥燃氣有限公司 Xinghua Xinao Gas Company Limited#	PRC	US$1,200,000	**100.00%**	100.00%	Sales of piped gas
興化新奥燃氣工程有限公司 Xinghua Xinao Gas Engineering Company Limited*	PRC	US$600,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奥能源物流有限公司 Xinao Energy Logistics Company Limited#	PRC	US$12,400,000	**100.00%**	100.00%	Transportation of oil products and gas
新奥(廊坊)能源商務服務有限公司 Xinao (Langfang) Energy Business Services Company Limited#	PRC	RMB$10,000,000	**100.00%**	–	Provision of business advisory services
新奥能源銷售有限公司 Xinao Energy Sales Company Limited#	PRC	US$28,200,000	**100.00%**	100.00%	Wholesale and retail of LNG & CNG, piped gas facilities, gas equipment, appliances and others
新奥能源咨詢有限公司 Xinao Energy Consultant Company Limited#	PRC	RMB50,000,000	**100.00%**	100.00%	Provision of consultation services on overall comprehensive energy solutions
新奥燃氣發展有限公司 Xinao Gas Development Company Limited#	PRC	US$6,000,000	**100.00%**	100.00%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas

53. 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 2009	2008	Principal activities
新奧燃氣工程有限公司 Xinao Gas Engineering Company Limited#	PRC	US$7,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奧(中國)燃氣投資有限公司 Xinao (China) Gas Investment Company Limited#	PRC	US$231,778,124	**100.00%**	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	US$1,400,000	**100.00%**	100.00%	Technology research and development, product development
湘潭新奧燃氣發展有限公司 Xiangtan Xinao Gas Development Company Limited*	PRC	RMB30,000,000	**85.00%**	85.00%	Sales of piped gas and gas appliance
蕭山利達管道燃氣有限公司 Xiaoshan Lida Piped Gas Company Limited#	PRC	RMB3,000,000	**100.00%**	100.00%	Sales of piped gas and gas appliance
新安新奧燃氣有限公司 Xinan Xinao Gas Company Limited*	PRC	RMB10,000,000	**63.00%**	63.00%	Sales of piped gas and gas appliance
新鄉新奧車用燃氣有限公司 Xinxiang Xinao Vehicle Gas Company Limited*	PRC	RMB3,000,000	**61.75%**	61.75%	Sales of gas for vehicle use and provision of related consultation services
新鄉新奧熱力有限公司 Xinxiang Xinao Gas Heat Energy Company Limited#	PRC	RMB38,100,000	**100.00%**	–	Sales of heat energy
邢台新奧車用燃氣有限公司 Xingtai Xinao Vehicle Gas Company Limited*	PRC	RMB20,000,000	**90.00%**	90.00%	Construction and operation of vehicle gas refuelling stations
許昌新奧清潔能源有限公司 Xuchang Xinao Clean Energy Company Limited*	PRC	RMB20,000,000	**80.00%**	80.00%	Construction and operation of vehicle gas refuelling stations
許昌市綠色環保汽車技術有限公司 Xuchang Green Environmental Vehicle Technology Company Limited*	PRC	RMB500,000	**80.00%**	80.00%	Refitting and maintenance of natural gas vehicle supply system

53. 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 2009	2008	Principal activities
鹽城新奧燃氣有限公司 Yancheng Xinao Gas Company Limited*	PRC	RMB50,000,000	**70.00%**	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	US$600,000	**79.00%**	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	HK$20,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
鹽城新奧天然氣技術服務有限公司 Yancheng Xinao Natural Gas Technical Services Company Limited	PRC	RMB500,000	**100.00%**	100.00%	Provision of technical service on gas application
鹽城新城新奧燃氣發展有限公司 Yancheng Xincheng Xinao Gas Development Limited#	PRC	RMB10,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
煙台新奧燃氣有限公司 Yantai Xinao Gas Company Limited#	PRC	US$2,100,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
煙台新奧實業有限公司 Yantai Xinao Industry Company Limited*	PRC	RMB55,000,000	**60.00%**	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	RMB7,000,000	**78.00%**	58.00%	Construction and operation of vehicle gas refuelling stations
揚州新奧燃氣有限公司 Yangzhou Xinao Gas Company Limited#	PRC	US$1,300,000	**100.00%**	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	US$800,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
伊川新奧燃氣有限公司 Yichuan Xinao Gas Company Limited	PRC	RMB10,000,000	**100.00%**	–	Sales of piped gas

53. 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 2009	2008	Principal activities
益陽新奧清潔能源有限公司 Yiyang XinAo Clean Energy Company Limited#	PRC	US$1,200,000	**100.00%**	100.00%	Production and sales of CNG for vehicle use; sales of LNG
永春縣新奧燃氣有限公司 Yongchun Xinao Gas Company Limited	PRC	RMB15,000,000	**100.00%**	–	Design and installation of gas equipments
永康新奧燃氣有限公司 Yongkang Xinao Gas Company Limited#	PRC	US$8,000,000	**100.00%**	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	US$800,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
湛江新奧燃氣有限公司 Zhanjiang Xinao Gas Company Limited*	PRC	RMB85,000,000	**90.00%**	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	US$2,100,000	**95.00%**	95.00%	Investment in gas pipeline infrastructure and sales of piped gas
肇慶新奧燃氣有限公司 Zhaoqing Xinao Gas Company Limited#	PRC	RMB38,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
鎮江新奧車用燃氣發展有限公司 Zhenjiang Xinao Vehicle Gas Development Company Limited#	PRC	US$5,000,000	**100.00%**	100.00%	Sale of gas for vehicle use
諸城新奧燃氣有限公司 Zhucheng Xinao Gas Company Limited#	PRC	US$3,000,000	**100.00%**	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	US$800,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
株洲新奧燃氣有限公司 Zhuzhou Xinao Gas Limited*	PRC	RMB135,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure and sales of piped gas
株州新奧燃氣工程技術服務有限公司 Zhuzhou Xinao Gas Engineering Technology Services Company Limited*	PRC	RMB8,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

53. 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 2009	2008	Principal activities
淄博新奧燃氣有限公司 Zibo Xinao Gas Company Limited#	PRC	RMB5,370,000	**100.00%**	–	Operation of vehicle gas refuelling stations
鄒平新奧燃氣有限公司 Zouping Xinao Gas Company Limited#	PRC	US$1,200,000	**100.00%**	100.00%	Sales of piped gas

Notes:

a. The Group hold 46.75% indirect effective interest in 長沙星沙新奧燃氣有限公司 and 長沙星沙新奧燃氣發展有限公司 through the 85% direct interest held by a 55% owned subsidiary, 長沙新奧燃氣有限公司. Therefore, the Group has control over these entities and they are considered as subsidiaries of the Company.

b. The Group hold 42% indirect effective interest in 南安市燃氣有限公司 through the 70% direct interest held by a 60% owned subsidiary, 泉州市燃氣有限公司. Therefore the Group has control over this entity and it is considered as a subsidiary of the Company.

c. The Group hold 42% indirect effective interest in 南安新奧燃氣有限公司 through the 100% direct interest held by a 42% owned subsidiary,南安市燃氣有限公司. Therefore the Group has control over this entity and it is considered as a subsidiary of the Company.

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, except for Xinao Gas Investment Group Limited, whose place of operation is the PRC.

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 issued any debt securities at the year ended 31 December 2009 or at any time during the year except for 新奧(中國)燃氣投資有限公司 which has issued short-term debenture to third party debenture holders with face value of RMB800,000,000, in which the Group has no interest.

* Sino-foreign equity joint venture

\# Wholly foreign owned enterprise

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