ENN 新奧

ENN Energy Holdings Limited

(Stock code: 2688)

EXPANDING OUR HORIZONS ON SOLID FOUNDATION

annual report 2011

ENN Energy & Innovation
Ennovation

"Leveraging on our solid foundation of energy distribution, we strive to reach new heights through strategic business development, sound execution ability, provision of innovative energy solutions, and prudent acquisition strategy.

We are committed to becoming an international clean energy distributor, creating values to our customers and maximizing returns to our shareholders."

Operational Locations (The PRC)

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	767,000
Beijing Municipality (3 projects)	
3. Miyun	173,000
6. Pinggu	116,000
8. Changping	245,000
Hebei (7 projects)	
1. Langfang	549,000
29. Shijiazhuang	2,428,000
48. Luquan	91,000
74. Luanxian	81,000
94. Rongcheng	70,000
100. Zhengding New Zone, Shijiazhuang City	50,000
101. Jingxing	330,000
Henan (6 projects)	
24. Xinxiang	1,013,000
40. Kaifeng	856,000
49. Shangqiu	1,490,000
55. Luoyang	1,632,000
68. Xinan	102,000
73. Yichuan	100,000
Anhui (9 projects)	
14. Bengbu	926,000
21. Chuzhou	300,000
22. Luan	338,000
26. Bozhou	224,000
30. Chaohu	237,000
58. Fengyang	109,000
63. Laian	84,000
65. Quanjiao	114,000
66. Guzhen	91,000
Hunan (9 projects)	
36. Xiangtan	886,000
39. Changsha	2,422,000
42. Zhuzhou	1,009,000
80. Huaihua	437,000
88. Changsha County	297,000
89. Zhuzhou County	270,000
90. Ningxiang	300,000
91. Wangcheng	150,000
92. Yongzhou	600,000
Guangxi (3 projects)	
45. Gulin	850,000
51. Guigang	388,000
99. Guiping Industrial Park, Guigang City	–
Yunnan (2 project)	
81. Wenshan	252,000
93. Kunming City Hi-tech Zone	40,000
Liaoning (3 projects)	
4. Huludao	477,000
5. Xingcheng	134,000
96. Dayou Linhai Economic Zone, Linghai City	20,000
Shandong (12 projects)	
2. Liaocheng	569,000
7. Huangdao	524,000
9. Zhucheng	470,000
10. Chengyang	481,000
11. Yantai Development Zone	–
12. Yantai	1,796,000
15. Zouping	194,000
17. Laiyang	255,000
23. Rizhao	311,000
41. Jiaozhou	405,000
43. Jiaonan	391,000
102. Changqing Zone, Jinan City	630,000
Jiangsu (10 projects)	
13. Gaoyou	150,000
16. Taixing	240,000
18. Yancheng	899,000
19. Huaian	1,175,000
20. Haian	193,000
25. Xinghua	438,000
32. Wujin	978,000
38. Lianyungang	955,000
95. Hongze	381,000
98. Yancheng Environment Protection Industrial Park	–
Zhejiang (14 projects)	
27. Haining	227,000
28. Quzhou	269,000
31. Lanxi	130,000
33. Jinhua	139,000
34. Wenzhou	–
35. Longwan	334,000
46. Huzhou	224,000
52. Huangyan	599,000
53. Yongkang	227,000
57. Xiaoshan	681,000
64. Ningbo (Yinzhou)	482,000
72. Haiyan	101,000
78. Longyou	124,000
79. Nanxun	497,000
Fujian (9 projects)	
56. Quanzhou	1,085,000
59. Nanan	376,000
60. Huian	138,000
61. Shishi	98,000
62. Jinjiang	397,000
67. Dehua	100,000
70. Quangang	314,000
77. Yongchun	153,000
97. Anxi	120,000
Guangdong (16 projects)	
37. Dongguan	6,950,000
47. Zhanjiang	652,000
50. Shantou	1,478,000
54. Zhaoqing Development Zone	71,000
69. Zhaoqing	508,000
71. Guangzhou (Zengcheng)	229,000
75. Sihui	472,000
76. Huadu	662,000
82. Xinyi	252,000
83. Luoding	291,000
84. Fengkai	81,000
85. Guangning	81,000
86. Huaiji	124,000
87. Lianzhou	154,000
103. Yunan	75,000
104. Panyu Zone, Guangzhou City	1,764,000

Total: 53,142,000

CONTENTS

Corporate Information

OUR MISSION

INNOVATING CLEAN ENERGY, IMPROVING LIVING ENVIRONMENT, ENHANCING LIFE QUALITY.

Board of Directors

Executive director

Wang Yusuo (Chairman)
Cheung Yip Sang (Chief Executive Officer)
Zhao Jinfeng
Yu Jianchao
Cheng Chak Ngok (Chief Financial Officer)
Zhao Shengli
Wang Dongzhi

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

Kong Chung Kau
Wang Guangtian
Yien Yu Yu, Catherine

Members of the Remuneration Committee

Yien Yu Yu, Catherine
Wang Guangtian
Kong Chung Kau
Jin Yongsheng

Members of the Nomination Committee

Wang Yusuo
Jin Yongsheng
Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

Registered Office

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

Principal Place of Business in Hong Kong

Rooms 3101–04, 31st Floor
Tower 1, Lippo Centre
89 Queensway
Hong Kong

Head Office in The PRC

Building A, ENN Industrial Park
Xinyuan DongDao Road
Economic and Technological 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's 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

www.xinaogas.com

E-mail address

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"Natural gas is the most environmental friendly fossil fuel, a cost-competitive and convenient energy source. Promoting the usage of natural gas is the right strategy of reducing carbon-emission, enhancing efficiency of energy utilization and modifying the structure of energy consumption."


THE RIGHT
STRATEGY

Chairman's Statement

WANG Yusuo
Chairman

With the existing supportive policies of the Chinese government, natural gas will gradually become the major fuel in the urban gas market, presenting considerable potential for the sustainable development of urban gas projects and bright market prospects. We will seize this opportunity and ensure that while we orderly develop existing business, we will focus more on the development of natural gas distributed energy projects and vehicle/ship LNG business.

Results of the Year

The year of 2011 was the first year of China's 12th Five-Year Plan. Thanks to the concerted effort of its employees, the Group continued to maintain a substantial growth during the year in face of complicated macroeconomic condition and market environment. The turnover and profit attributable to shareholders for the year reached RMB15,068 million and RMB1,253 million respectively, representing increases of 34.4% and 23.7% over last year, while the earnings per share increased by 22.7% to RMB1.19.

In 2011, the Group secured 10 new projects in the first half of the year and another five new projects in the second half of the year, including Panyu District of Guangzhou and Yunan County, Guangdong Province; Changqing District in Jinan, Shandong Province; Zhengdingxin District of Shijiazhuang and Jingxing County, Hebei Province. As a result, the number of secured projects by the Group in China increased to 104, and the total connectable urban population coverage increased by 6.27 million to 53.14 million. On the other hand, apart from the continued efforts in developing vehicle compressed natural gas ("CNG") refuelling station business, the Group also actively expanded vehicle/ship liquefied natural gas business. During the year, 46 new natural gas refuelling stations (including 27 CNG refuelling stations and 19 liquefied natural gas ("LNG") refuelling stations) were built and put into operation. As of the end of 2011, the number of vehicle gas refuelling stations operated by the Group reached 238 and the volume of gas sold in the vehicle segment over the total volume of gas sold increased further to 13.0%. The growth in vehicle gas sales volume not only reflected the potential for greater development in vehicle 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 for 1,029,727 residential households and 5,178 commercial/industrial ("C/I") customers (connected to gas appliances with total installed designed daily capacity of 6,823,476 cubic meters). As of the end of 2011 the accumulated number of residential households and C/I customers of natural gas were 6,658,272 and 23,501 (connected to gas appliances with total installed designed daily capacity of 25,273,724 cubic meters) respectively, while in terms of all piped gas users, the accumulated number of residential households and C/I customers reached 6,815,165 and 23,969 (connected to gas appliances with total installed designed daily capacity of 25,767,276 cubic meters) respectively. The sales volume of natural gas for the year grew rapidly by 31.6% to 5,011 million cubic meters as compared with last year. Accordingly, the Group has not only reached but even exceeded its operational and financial performance goals set in early 2011. The Group's ability to maintain satisfactory growth fully demonstrated the robust business development of the Group, our strong execution ability in vigorously raising the gas penetration rate of our existing gas projects, as well as the immense demand for and growth potential of natural gas in China.

Financial Position

As at 31 December 2011, the Group's total debts amounted to RMB10,672 million (31 December 2010: RMB6,263 million) and the bank balances and cash for the purpose of computing net gearing ratio amounted to RMB5,869 million (31 December 2010: RMB2,851 million) which include cash and cash equivalents of RMB3,349 million (31 December 2010: RMB2,851 million) and a bank deposit of RMB2,520 million (31 December 2010: nil) in the restricted bank deposits as an escrow for the pre-conditional offer as set out in the commitment section below. The Group's net gearing ratio, i.e. ratio of net debt to equity (including non-controlling interests), was 54.3% (31 December 2010: 45.3%). As the Group vigorously raised the gas penetration rate of existing projects and expanded the vehicle gas refuelling station business, revenue from gas sales has become the major source of income for the Group. Such optimised revenue structure will generate long-term and stable cash flow for the Group, which has generated satisfactory net free cash inflow since 2008, allowing the Group to enjoy stable financial resources to pursue sustainable development.

On the other hand, through our great deal of efforts over the years, we have obtained investment grade ratings in both listed company and bond categories from three major globally recognized investment rating agencies, namely Standard and Poor's, Moody's Investors and Fitch Ratings at the same time, and thus become one of the two privately-owned companies in China on the market that receive investment grade ratings.

Corporate Management

During the year, the informatisation program jointly developed with IBM China Company Limited ("IBM") has been carried out and promoted in full swing, leading to a remarkable enhancement in the operational efficiency. As of the end of 2011, the Group processed over 98.0% of business through the information systems. It led to a significant enhancement in operational efficiency and increasingly highlighted the strength of informationalised management.

During the year, with the continuous use of innovative management tools like balanced scorecard, the Group formulated a market and strategic performance optimisation solution and implemented it in different planning segments such as the annual strategic conference, annual business goal and financial budget planning, so as to ensure that the Group's strategies were effectively delivered to lower levels for implementation and to optimise resource allocation according to the market and strategies.

In order to reduce the financing cost arising from business expansion and allocate the capital between group companies more effectively to achieve high liquidity, security and profitability of capital, the Group had spent enormous efforts to gain the approval of the China Banking Regulatory Commission to establish ENN Finance Co., Ltd. on 14 April 2011. The finance company serves companies within the Group and has significantly facilitated the capital allocation and enhanced the utilisation of financial resources of the Group as a result. Meanwhile, the operating cost management system, lifecycle asset management system and active risk management system which were set up during the year to facilitate reasonable cost control, enhance asset efficiency and control corporate risks had also played a significant part in achieving these goals.

International Awards

During the year, our annual report was awarded "Gold: Energy, Oil, Natural Gas and Fuels" and "Merit, Cover Design: Oil and Natural Gas Production and Service" in the International LACP and ARC Awards. These remarkable achievements fully evidenced the clear and accurate disclosure of information in our annual reports, and our efficient communication with our shareholders.

Human Resources

At the end of 2011, the Group had 21,575 employees (2010: 19,111 employees). In addition to the increasing number of energy-saving and emission reduction projects and vehicle gas refuelling station projects, the Group also increased its manpower to meet the demand arising from its 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.

In order to meet the need for operational talents required for the Group's continued rapid growth and build a young management team who deeply recognises the corporate culture and supports the strategic development of the Group, the Group has developed a distinctive training system for young management. A group of outstanding young members would be selected systematically every year to be the future leaders. In 2010, the Group selected 26 young employees to complete 11 related special training modules. Thirteen of them have been promoted as leaders after on-the-job training and evaluation. The Group picked another 21 young employees during the year who are now receiving professional training. We also continued to implement a young backbone management training program and 1,031 young leaders were selected and trained under the program.

In addition, in order to cultivate engineering talents who are responsive to changing situations and versatile, certain employees were shortlisted by the Group to pursue further study and receive training in famous colleges in China or overseas, facilitating the introduction of a talents nurturing program of masters of engineering.

Prospects

According to the 2011 Domestic Economy and Social Development Statistics Report of the People's Republic of China, the total energy consumption in 2011 amounted to 3.48 billion tons of standard coal, up 7.0% over last year. The consumption of coal, crude oil, natural gas and electric power grew by 9.7%, 2.7%, 12.0% and 11.7% respectively over last year. The national energy consumption per unit of gross domestic product in ten-thousand dollars decreased by 2.0%. The natural gas consumption recorded the highest growth among all types of energy, showing the popularity and bright prospects of natural gas.

In the current primary energy consumption pattern in China, coal and petroleum account for 68.0% and 19.0% respectively while natural gas only accounts for 4.4%. New energy like hydropower, wind power and nuclear power merely accounts for 8.6% in total. Currently, the environment of China cannot afford the pollution caused by the existing energy consumption structure by far, and it is among the nations which top the list in respect of emission volume of carbon dioxide and sulphur dioxide. The share of coal in China's energy consumption remains very high. The coal-based energy structure has heightened the energy demand and the pressure on the environment, and the energy consumption pattern should be optimised in a short period to promote the development and use of natural gas, nuclear power, solar energy, wind power and other kinds of new energy. This does not only save energy and reduce emission, but is also the right strategy for China to achieve sustainable economic development. In terms of energy saving and emission reduction, China's biggest challenge is the coal-based energy structure. In the 12th Five-Year Plan, the Chinese government clearly proposed the guiding principles of China's energy development: "to optimize the energy structure, to reasonably control the total energy consumption, to improve the pricing system of resource-related products and the tax system for resources and environment, to strengthen the laws, regulations and standards on energy saving and emission reduction, to enhance the responsibility review of energy saving and emission reduction targets, to introduce energy saving and environmental protection measures to production, circulation, consumption and construction processes, and to enhance sustainability development". The Chinese government indicated that it would further promote the optimisation and adjustment of the energy structure under the 12th Five-Year Plan, and expected the share of natural gas in primary energy consumption to raise from the current 4.4% to 8.3%, while the share of hydropower and nuclear power, and other kinds of new energy such as solar energy, wind power and biomass energy was expected to grow by 1.5% and 1.8% respectively by 2015. The share of coal in primary energy consumption should drop from the current 68.0% to around 63.0% by then. By 2020, China will gradually reduce its over-dependence on coal.

In 2009, the Chinese government pledged to reduce the emission of carbon dioxide per unit of gross domestic product by 40.0%-45.0% by 2020 as compared to 2005. In order to ensure the fulfillment of this goal, the government is adopting various measures. At the United Nation Climate Change Conference held at Durban, climate issue once again raised international concerns and the international community reached the consensus of developing a low-carbon economy. As a member of the Chinese delegation, ENN was honoured to participate in the conference and its credo to create innovative ways of producing and using cleaner energy won the recognition of the world. Natural gas, a clean and efficient fossil fuel, is one of the pillars of low-carbon economy. It is estimated that the carbon dioxide emission of natural gas is 41.0% and 28.0% lower than that of coal and oil respectively. Extensive development and use of natural gas will be a realistic option for countries in response to global warming and an important strategy for maintaining the energy safety of a nation and enhancing its international competitiveness.

To cope with the growing demand for natural gas, the Chinese government invested heavily in natural gas infrastructure. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline I and II, Shaanxi-Beijing Pipeline I, II and III, Zhong-Wu Pipeline, Sebei-Xining-Lanzhou Pipeline, Sichuan-East Pipeline, Qin-Shen Pipeline, as well as branch pipelines like Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. According to the plan of the Chinese government, a number of natural gas pipeline projects, including the West-East Pipeline III and IV and China-Myanmar Oil and Gas Pipeline, will be completed and launched in the coming years. 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. To ensure a stable natural gas supply, the Chinese government started to plan and construct a dozen natural gas storage facilities to enhance the peak time usage adjustments in winter. Currently, three storage facilities with a total capacity of over 5 billion cubic meters have been built and another four are under construction. In the future, the natural gas reserve is expected to account for 20.0% to 25.0% of the demand.

During the period of 12th Five-Year Plan, China will put extra efforts in developing natural gas and increasing the share of electric power generated by natural gas. To increase the efficiency of energy utilization, facilitate structural adjustment, energy saving and emission reduction, and promote the orderly development of natural gas distributed energy, the Chinese government released the "Guidance on Developing Natural Gas Distributed Energy" (hereinafter as the "Guidance") on 9 October 2011. It clearly proposes the constructions of around 1,000 natural gas distributed energy projects and about 10 distributed energy demonstration areas with different representative features during the period of the 12th Five-Year Plan. By 2020, distributed energy system should be promoted and used in key cities throughout the country, with the installed capacity reaching 50 million kilowatt and achieving distributed energy equipment industrialization. During the year, the Group's several distributed energy projects, including Changsha Huanghua Airport, China Power-Snow Beer project, Xinxiang and Liuyang Industrial Park, were completed and put into operation. The Group also reviewed and approved another three projects, including the Zhuzhou Shennong Cultural Park project. The Group also signed contracts for around 175 energy saving and refit projects which enhance heat efficiency of customers through the provision of equipment refit and technological enhancement in energy consumption, among which 133 had completed gas connections with installed capacity of over 1 million cubic meters/day.

In addition, with China's rapid economic development, the coal-based energy consumption has increased substantially and the number of motor vehicles has also surged, leading to a significant rise in the emission levels of nitrogen oxides (NOx) and volatile organic compounds (VOCs) in developed regions and intensifying the pollution caused by ozone (O3) and fine particulate matter (PM2.5). With the unsolved pollution caused by inhalable particulate matter (PM10) and total suspended particulate (TSP) , the pollution caused by PM2.5 and O3 in Beijing, Tianjin, Hebei, Yangtze River Delta and Pearl River Delta worsens and the frequent accumulation of smog reduces visibility. Therefore, the Chinese government has released and implemented the new "Ambient Air Quality Standard" on 29 February 2012. In order to objectively reflect the ambient air quality and encourage the prevention of air pollution in China, the new standard introduces the average concentration limit for fine particulate matter (PM2.5) and eight-hour average concentration limit for ozone, and also requires more stringent detection and checking. The standard was first strictly implemented in key areas like Beijing, Tianjin, Hebei, Yangtze River Delta, Pearl River Delta, and municipalities directly under the jurisdiction of the Central Government and provincial capitals. It will then be rolled out throughout the country in 2016. The introduction of this standard has broadened the prospects of the promotion and utilization of clean energy like natural gas.

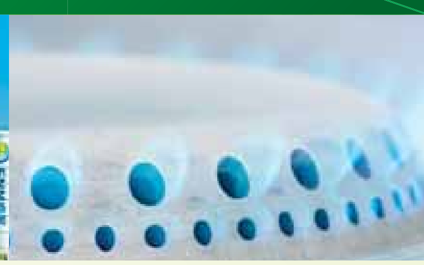
The period of the 12th Five-Year Plan is an important period marked by the rapid industrialisation and urbanisation of China. The country's urbanisation ratio is expected to increase from the current 43.0% to 55.0%-60.0% by 2020. With the existing supportive policies of the Chinese government, natural gas will gradually become the major fuel in the urban gas market, presenting considerable potential for the sustainable development of urban gas projects and bright market prospects. We will seize this opportunity and ensure that while we orderly develop existing business, we will focus more on the development of natural gas distributed energy projects and vehicle/ship LNG business. 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 maximize the long-term benefits of our shareholders, customers, staff, society and enterprises.

Wang Yusuo
Chairman

27 March 2012


PLATFORMS
FOR GROWTH

"We have already established strong foothold. We are ready to leap forward!"



Project Operational Data

Operational data as at 31 December 2011

	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	444.8	4	632
2	Liaocheng	2000	315.0	2	460
3	Miyun	2000	95.7	3	168
4	Huludao	2000	298.6	1	230
5	Xingcheng[3]	2002	0	0	0
6	Pinggu	2001	136.5	1	180
7	Huangdao	2001	349.2	1	920
8	Changping	2001	141.6	1	200
9	Zhucheng	2001	211.4	0	100
10	Chengyang	2001	393.7	3	500
11	Yantai Development Zone	2001	0	0	0
12	Yantai	2004	619.8	7	1,005
13	Gaoyou	2001	79.0	1	72
14	Bengbu	2002	344.0	1	960
15	Zouping	2002	153.1	1	360
16	Taixing	2002	167.2	2	396
17	Laiyang	2002	196.1	1	72
18	Yancheng	2002	426.4	3	1,650
19	Huaian	2002	412.7	2	580
20	Haian	2002	166.0	2	127
21	Chuzhou	2002	342.1	2	600
22	Luan	2003	155.2	1	160
23	Rizhao	2002	288.9	1	300
24	Xinxiang	2002	451.5	1	560
25	Xinghua	2002	111.2	1	50
26	Bozhou	2003	190.5	1	46
27	Haining	2002	275.0	2	396
28	Quzhou	2002	167.4	3	280
29	Shijiazhuang	2002	626.7	1	792
30	Chaohu	2003	127.9	2	210
31	Lanxi	2003	42.9	0	0
32	Wujin	2003	1,006.6	2	1,410
33	Jinhua	2003	111.1	2	210
34	Wenzhou	2003	79.2	1	120
35	Longwan[4]	2004	0.9	0	0
36	Xiangtan	2003	325.1	2	380
37	Dongguan	2003	1,070.5	4	1,929
38	Lianyungang	2003	493.3	2	420
39	Changsha	2003	1,372.4	6	1,980
40	Kaifeng	2003	621.4	2	350
41	Jiaozhou	2003	297.5	1	420
42	Zhuzhou	2003	395.2	1	880
43	Jiaonan	2003	262.5	1	210
44	Tongliao	2004	94.5	1	50
45	Guilin	2004	245.9	2	240
46	Huzhou	2004	294.1	1	620
47	Zhanjiang	2004	249.4	2	380
48	Luquan	2004	32.5	1	1,800
49	Shangqiu	2004	178.2	1	240
50	Shantou	2004	110.7	3	180
51	Guigang	2004	95.7	1	100
52	Taizhou	2005	101.2	0	0
53	Yongkang	2005	143.2	1	160
54	Zhaoqing Development Zone	2005	74.3	1	100
55	Luoyang	2006	1,093.9	3	1,060
56	Quanzhou	2006	265.7	5	620
57	Xiaoshan	1994	316.1	0	200
58	Fengyang	2005	51.8	0	0
59	Nanan	2006	68.0	1	210
60	Huian	2006	57.1	0	0

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
168,749	927	708,231	6
120,347	545	747,774	5
59,791	239	117,678	0
170,607	374	228,988	6
0	0	0	0
27,277	144	203,979	0
134,651	244	1,134,847	3
44,385	332	96,786	0
73,360	142	163,816	1
156,614	347	448,121	4
0	0	0	0
298,364	653	1,055,484	8
31,265	159	30,411	0
141,572	319	470,502	7
30,796	98	355,780	3
36,045	334	235,908	1
49,008	191	113,829	2
154,519	687	356,747	3
173,720	336	553,141	5
30,407	195	188,912	1
85,935	406	391,846	2
82,053	211	68,349	3
96,584	177	206,823	2
199,097	665	475,538	6
31,023	151	28,729	1
32,496	141	43,769	3
36,371	192	380,163	1
49,196	189	202,143	0
612,121	880	1,003,365	19
66,578	240	180,008	3
11,889	58	87,087	0
146,617	1,621	1,371,720	6
40,624	176	80,188	0
14,437	52	108,565	0
606	0	0	0
187,241	960	361,692	5
236,720	1,636	1,793,235	12
175,247	546	463,029	4
850,567	1,871	2,215,629	10
184,181	912	301,886	2
80,923	280	361,627	1
323,543	1,359	1,346,773	3
69,295	123	185,800	1
81,849	108	36,667	2
95,674	99	59,232	2
68,138	276	296,206	4
69,379	304	309,674	4
21,582	10	24,119	0
73,416	243	35,521	2
37,377	138	125,351	0
24,600	80	31,912	0
28,365	89	55,464	0
12,711	163	330,330	0
1,079	32	155,565	0
231,227	619	976,468	5
46,841	209	137,889	3
122,852	275	283,066	1
3,317	22	123,636	1
10,640	58	301,830	1
12,106	63	60,440	0

Project Operational Data

Operational data as at 31 December 2011

	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)
61	Shishi	2006	80.9	0	0
62	Jinjiang	2006	196.9	1	1,340
63	Laian	2006	56.6	0	0
64	Ningbo	2007	318.0	0	130
65	Quanjiao	2007	69.2	0	0
66	Xinan	2007	42.2	1	0
67	Dehua	2003	87.2	1	120
68	Guzhen	2007	1.1	0	0
69	Zhaoqing	2008	111.5	1	120
70	Quangang	2008	11.3	0	0
71	Guangzhou Zengcheng	2007	29.9	0	0
72	Haiyan	2008	16.3	1	240
73	Yichuan	2009	0	1	0
74	Luan county	2009	2.5	1	1,200
75	Longyou	2009	36.0	0	0
76	Sihui	2009	34.5	1	36
77	Yongchun	2009	0	0	0
78	Nanxun	2009	0	0	0
79	Huadu	2010	204.3	1	540
80	Wenshan	2010	25.0	1	100
81	Huaihua	2010	32.2	1	120
82	Guangning	2010	0	0	0
83	Huaiji	2010	0	0	0
84	Luoding	2010	0	0	0
85	Xinyi	2010	0	0	0
86	Fengkai	2010	0	0	0
87	Lianzhou	2010	0	0	0
88	Changsha county	2010	0	0	0
89	Zhuzhou county	2010	0	0	0
90	Ningxiang	2011	0	0	0
91	Wangcheng	2011	0	0	0
92	Yongzhou	2011	0	0	0
93	Kunming City Hi-tech Zone	2011	15.0	1	460
94	Rongcheng	2011	4.3	0	0
95	Hongze	2011	36.3	0	0
96	Dayou Linhai Economic Zone, Linghai City	2011	27.1	1	50
97	Anxi	2011	0	0	0
98	Yancheng Environmental Protection Industrial Park	2011	0	0	0
99	Guiping Indstrial Park, Guigang City	2011	0	0	0
100	Zhengdingxin District, Shijiazhuang	2011	0	0	0
101	Jingxing	2011	6.3	0	0
102	Changqing District, Jinan	2011	0	0	0
103	Yunan	2011	0	0	0
104	Panyu District, Guangzhou	2011	171.0	4	1,272
Other project					
Shanghai(CNG)					
Shanghai(LPG)					
Shanghai(DME)					
Other gas refuelling station project					
Total			**18,853.7**	**115**	**32,003**

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.

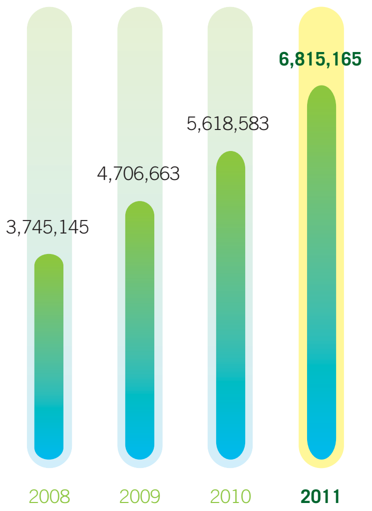
Accumulated number of piped gas (including natural gas) customers: Residential households	Commercial/ industrial customers	Installed designed daily capacity for commercial/ industrial customers (m³)	Number of vehicle gas refuelling stations
7,879	128	213,637	0
20,872	341	2,241,146	1
11,240	60	56,806	0
87,126	384	170,427	0
20,829	81	31,815	0
6,438	11	34,495	0
1,576	217	228,045	0
0	2	6,000	0
27,706	86	77,170	2
0	3	8,000	0
41,878	15	1,563	0
0	18	52,365	0
0	0	0	0
0	0	0	0
3,264	12	21,550	0
4,593	10	44,650	0
0	23	22,920	0
0	0	0	0
53,987	301	174,804	0
676	1	5	1
1,313	3	356	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
168	11	44,170	2
309	3	188	0
6,179	35	140	0
2,395	15	13,302	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
60,763	309	111,454	0
			3
			28
			1
			36
6,815,165	**23,969**	**25,767,276**	**238**

(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.

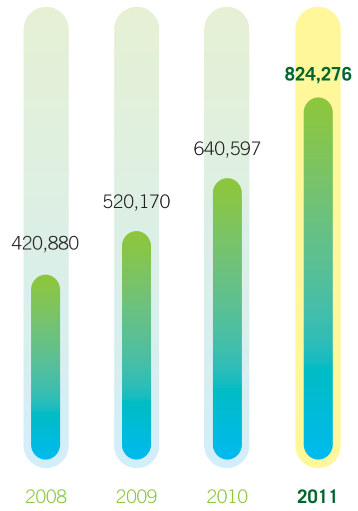
Operational and Financial Summary

Operational

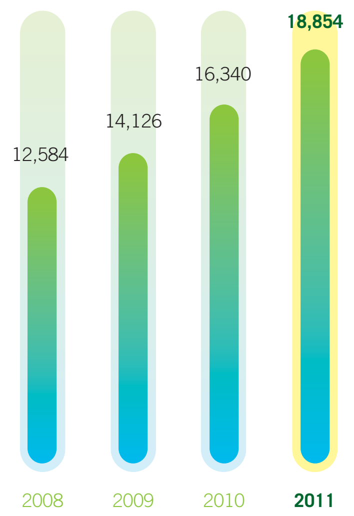
Accumulated Number of Gas Connections Made to Residential Households
Number of households



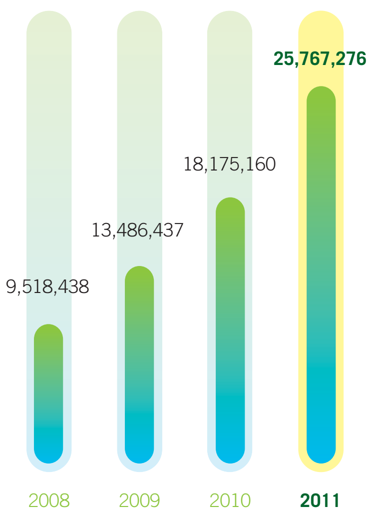
Units of Piped Gas Sold to Residential Households
'000m^3



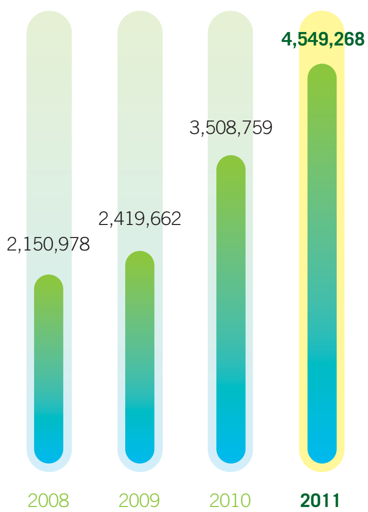
Length of Existing Intermediate Pipelines and Main Pipelines
km



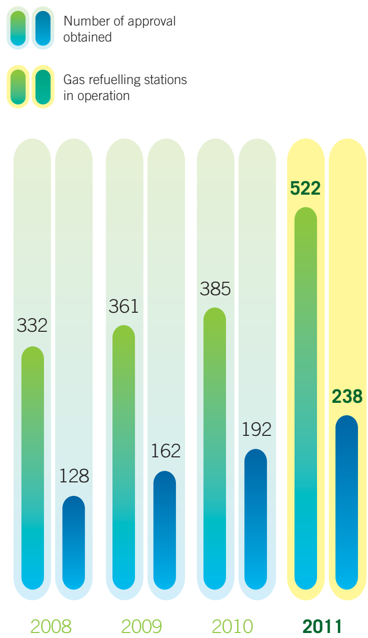
Accumulated Installed Designed Daily Capacity for Commercial/Industrial Customers
m^3



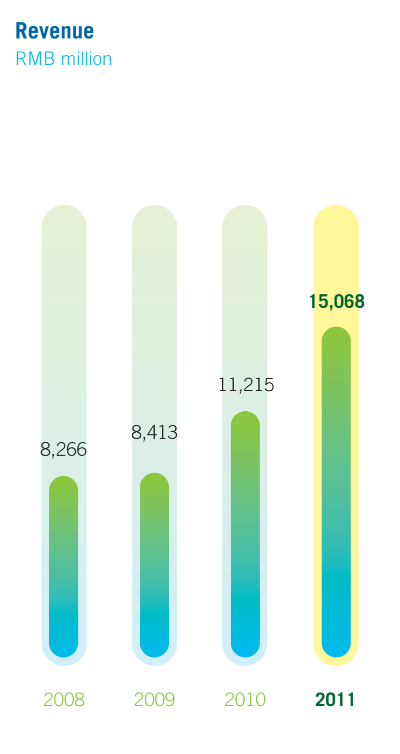
Units of Piped Gas Sold to Commercial/Industrial Customers and Vehicle Gas Refuelling Stations
'000m^3

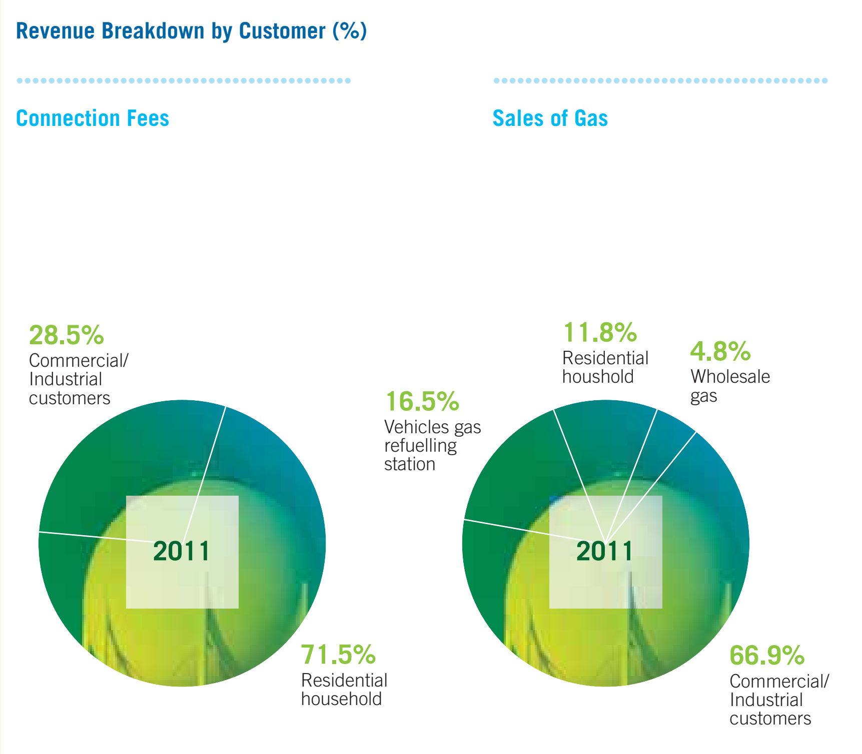


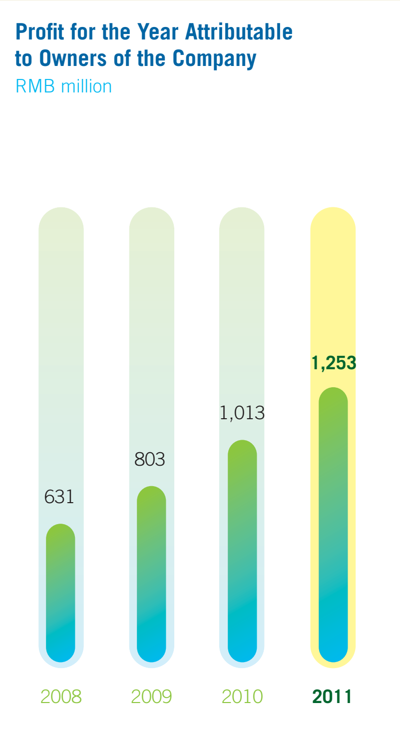
Number of Vehicle Gas Refuelling Stations

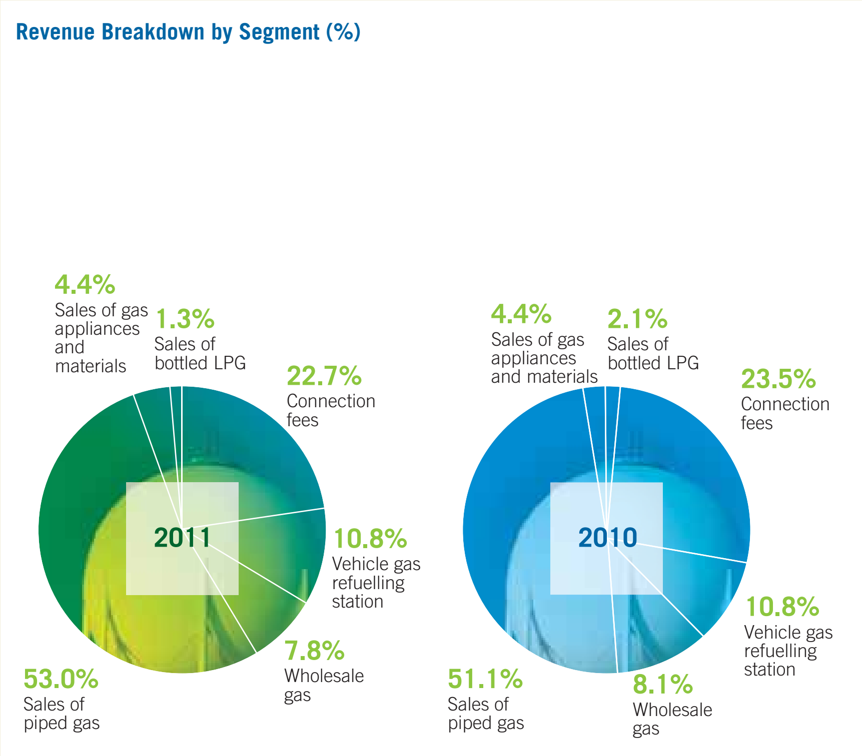


Financial


Revenue
RMB million
8,266
8,413
11,215
15,068
2008
2009
2010
2011


Revenue Breakdown by Customer (%)
Connection Fees
28.5%
Commercial/ Industrial customers
2011
71.5%
Residential household
Sales of Gas
11.8%
Residential houshold
4.8%
Wholesale gas
16.5%
Vehicles gas refuelling station
2011
66.9%
Commercial/ Industrial customers


Profit for the Year Attributable to Owners of the Company
RMB million
631
803
1,013
1,253
2008
2009
2010
2011


Revenue Breakdown by Segment (%)
4.4%
Sales of gas appliances and materials
1.3%
Sales of bottled LPG
22.7%
Connection fees
2011
10.8%
Vehicle gas refuelling station
7.8%
Wholesale gas
53.0%
Sales of piped gas
4.4%
Sales of gas appliances and materials
2.1%
Sales of bottled LPG
23.5%
Connection fees
2010
10.8%
Vehicle gas refuelling station
8.1%
Wholesale gas
51.1%
Sales of piped gas

Comparison of Ten-Year Results

	2011	2010	2009 (Restated)	2008 (Restated)
Highlights (Group)				
Number of connected households (Piped Gas)	**6,815,165**	5,618,583	4,706,663	3,745,145
Installed designed daily capacity for commercial/industrial customers (m^3)	**25,767,276**	18,175,160	13,486,437	9,518,438
Units of piped gas sold				
Residential households ('000 m^3)	**824,276**	640,597	520,170	420,880
Commercial/industrial customers ('000 m^3)	**4,549,268**	3,508,759	2,419,662	2,150,978
Length of existing pipelines (1) (km)	**18,854**	16,340	14,126	12,584
Number of existing natural gas processing stations	**115**	100	94	90
Daily capacity of existing natural gas processing stations (m^3)	**32,003,000**	23,970,000	14,638,000	14,378,000
Revenue & Profit (RMB million)				
Revenue	**15,068**	11,215	8,413	8,266
Profit before tax	**2,327**	1,811	1,383	1,131
Income tax expense	**(660)**	(410)	(304)	(260)
Profit for the year	**1,667**	1,401	1,079	871
Non-controlling interests	**(414)**	(388)	(276)	(240)
Profit and total comprehensive income for the year attributable to owners of the Company	**1,253**	1,013	803	631
Dividends	**313**	297	200	158
Assets & Liabilities (RMB million)				
Non-current assets	**15,517**	12,712	10,542	9,138
Associates	**694**	488	324	292
Jointly controlled entities	**1,733**	1,361	1,016	758
Current assets	**8,944**	5,079	4,754	4,354
Current liabilities	**(9,520)**	(7,489)	(5,364)	(5,428)
Non-current liabilities	**(8,528)**	(4,611)	(4,844)	(3,697)
Net assets	**8,840**	7,540	6,428	5,417
Capital & Reserves (RMB million)				
Share capital	**110**	110	110	106
Reserves	**6,936**	5,922	5,007	4,128
Equity attributable to owners of the Company	**7,046**	6,032	5,117	4,234
Non-controlling interests	**1,794**	1,508	1,310	1,183
	8,840	7,540	6,427	5,417
Earnings per share – basis (RMB)	**1.19**	0.97	0.78	0.63

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

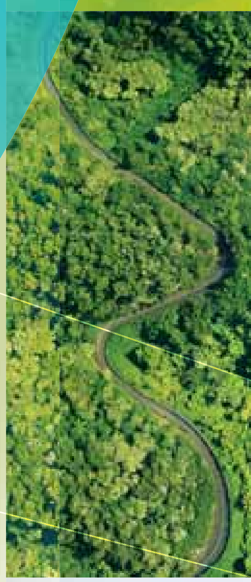
	2007	2006 (Restated)	2005	2004	2003	2002
	3,167,800	2,458,735	1,793,216	970,339	650,411	210,850
	7,594,338	5,023,652	2,495,479	1,250,873	631,493	365,113
	359,991	299,806	198,488	104,912	44,967	19,123
	1,777,497	1,027,939	273,051	142,798	71,626	30,407
	11,301	9,234	7,268	4,871	1,958	791
	83	74	64	51	35	25
	14,149,000	13,563,000	8,786,000	7,493,000	4,709,000	3,178,000

	5,756	3,397	2,057	1,440	878	544
	815	534	401	313	199	156
	(109)	(50)	(39)	(9)	(3)	(12)
	706	484	362	304	196	144
	(199)	(104)	(92)	(53)	(13)	(16)
	507	380	270	251	183	128
	127	76	45	25	–	–

	8,176	6,329	4,391	3,013	2,105	925
	386	340	77	61	10	–
	484	296	235	170	22	3
	3,504	3,070	2,852	1,609	961	843
	(3,957)	(2,699)	(1,683)	(1,262)	(1,033)	(457)
	(3,932)	(3,467)	(3,112)	(1,231)	(588)	(276)
	4,661	3,869	2,760	2,360	1,477	1,038

	106	103	96	92	78	78
	3,629	2,954	2,136	1,831	1,060	861
	3,735	3,057	2,232	1,923	1,138	939
	926	812	528	437	339	99
	4,661	3,869	2,760	2,360	1,477	1,038
	0.51	0.41	0.31	0.30	0.25	0.18

ROBUST GROWTH DRIVERS



"Throughout the years, our achievements were in line with our promises. Our business development strategy provides promising returns and prospects to the Group, and we are gaining momentum to grow further."

Total gas sales reached
5.37 billion m^3

Total coverage of connectable urban population of 53 million in 104 project cities with an average penetration rate of only 38.5%

Industry Review

Energy Consumption Pattern in China

The year of 2011 was the first year of China's 12th Five-Year Plan. Following the continued rapid economic growth in China, its energy consumption is increasing. According to the 2011 Domestic Economy and Social Development Statistics Report of the People's Republic of China, the total energy consumption in 2011 amounted to 3.48 billion tons of standard coal, up 7.0% over last year. The consumption of coal, crude oil, natural gas and electric power grew by 9.7%, 2.7%, 12.0% and 11.7% respectively over last year. The national energy consumption per unit of gross domestic product in ten-thousand dollars decreased by 2.0%.

According to the data released by the National Bureau of Statistics of China, in the current primary energy consumption pattern in China, coal and petroleum account for 68.0% and 19.0% respectively, while natural gas only accounts for 4.4%. New energy like hydropower, wind power and nuclear power merely accounts for 8.6% in total. Currently, the environment of China cannot afford the pollution caused by the existing energy consumption pattern by far, and it is among the nations which top the list in respect of emission volume of carbon dioxide and sulphur dioxide. Coal still remains a major component in the total energy consumption of China, and a large part of the demand for petroleum has to be satisfied by foreign supply. Over 80.0% of electric power is generated by coal. The coal-based energy structure has heightened the energy demand and the pressure on the environment, and the energy consumption pattern should be optimised in a short period to promote the development and use of natural gas and other kinds of new energy. This does not only save energy and reduce emission, but is also the right strategy for China to achieve sustainable economic development. In terms of energy saving and emission reduction, the coal-based energy structure poses the biggest challenge to China. In the 12th Five-Year Plan, the Chinese government clearly proposed the guiding principles of China's energy development: "to optimize the energy structure, to reasonably control the total energy consumption, to improve the pricing system of resource-related product and the tax system for resources and environment, to strengthen the laws, regulations and standards on energy saving and emission reduction, to enhance the responsibility review of energy saving and emission reduction targets, to introduce energy saving and environmental protection measures to production, circulation, consumption and construction processes, and to enhance sustainable development". The Chinese government indicated that it would further promote the optimisation and adjustment of the energy structure under the 12th Five-Year Plan, and expected the share of natural gas in primary energy consumption to raise from the current 4.4% to 8.3%, while the share of hydropower and nuclear power, and other kinds of new energy such as solar energy, wind power and biomass energy was expected to grow by 1.5% and 1.8% respectively by 2015. The share of coal in primary energy consumption should drop from the current 68.0% to around 63.0% by then. By 2020, China will gradually reduce its over-dependence on coal.

In 2009, the Chinese government pledged to reduce the emission of carbon dioxide per unit of gross domestic product by 40.0%–45.0% by 2020 as compared to 2005. In order to ensure the fulfillment of this goal, the government is adopting various measures. At the United Nation Climate Change Conference held at Durban, climate issue once again raised international concerns and the international community reached the consensus of developing a low-carbon economy. Natural gas, a clean and efficient fossil fuel, is one of the pillars of low-carbon economy. It is estimated that the carbon dioxide emission of natural gas is 41.0% and 28.0% lower than that of coal and oil respectively. Extensive development and use of natural gas will be a realistic option for countries in response to global warming and an important strategy for maintaining the energy safety of a nation and enhancing its international competitiveness.

During the period of 12th Five-Year Plan, China will put extra efforts in developing natural gas and increasing the share of electric power generated by natural gas. To increase the efficiency of energy utilisation, facilitate structural adjustment and energy saving and emission reduction, and promote the orderly development of natural gas distributed energy, the Chinese government planned to construct around 1,000 natural gas distributed energy projects during the period of the 12th Five-Year Plan, with an installed capacity reaching 50 million kilowatt by 2020.

To cope with the growing demand for natural gas, the Chinese government invested heavily in natural gas infrastructure. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline I and II, Shaanxi-Beijing Pipeline I, II and III, Zhong-Wu Pipeline, Sebei-Xining-Lanzhou Pipeline, Sichuan-East Pipeline, Qin-Shen Pipeline, as well as branch pipelines like Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. According to the plan of the Chinese government, a number of natural gas pipeline projects, including the West-East Pipeline III and IV and China-Myanmar Oil and Gas Pipeline, will be completed and launched in the coming years. At the same time, more and more import liquefied natural gas ("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. To ensure a stable natural gas supply, the Chinese government started to plan and construct a dozen natural gas storage facilities to enhance the peak time usage adjustments in winter. Currently, three storage facilities with a total capacity of over five billion cubic meters have been built and another four are under construction. In the future, the natural gas reserve is expected to account for 20.0% to 25.0% of the demand.

The period of the 12th Five-Year Plan is a significant period marked by the rapid industrialisation and urbanisation of China. The country's urbanisation ratio is expected to increase from the current 43.0% to 55.0%–60.0% by 2020. Natural gas will gradually become the major fuel in the urban gas market, presenting considerable potential for the sustainable development of urban gas projects and bright market prospects.

China's policies on city piped natural gas market

As the Chinese government attaches higher importance to environmental protection and utilisation efficiency of energy, more policies encouraging the use of clean energy and optimisation of energy structure have been promulgated.

The Chinese government promulgated the Natural Gas Utilising Policy in 2007 and the Circular Economy Promotion Law of the People's Republic of China on 29 August 2008, and issued the Opinions of State Council on Encouraging and Guiding Healthy Development of Private Investment on 7 May 2010 respectively. The introduction of these policies enhances the utilisation efficiency of natural gas, promotes environmental protection and attracts more investments in the natural gas sector.

To further increase the efficiency of energy utilisation, facilitate structural adjustment, energy saving and emission reduction, and promote the orderly development of natural gas distributed energy, the Chinese government released the "Guidance on Developing Natural Gas Distributed Energy" (hereinafter as the "Guidance") on 9 October 2011. It clearly proposed the constructions of around 1,000 natural gas distributed energy projects and about 10 distributed energy demonstration zones with different representative features during the period of the 12th Five-Year Plan. By 2020, distributed energy system should be promoted and used in key cities throughout the country, with the installed capacity reaching 50 million kilowatt, and achieving distributed energy equipment industrialisation.

Natural gas distributed energy is a highly efficient and modern way of using and supplying natural gas which can realise graded utilisation of natural gas through the tri-generation of cool, heat and power by using natural gas as fuel. An integrated energy utilisation efficiency of over 70.0% can be achieved as a result, and the source of energy supply can be located near the load centre. Compared with the conventional centralised energy supply model, natural gas distributed energy is more efficient, clean, environmentally friendly, safe, flexible and economical.

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 the development of the natural gas industry.

238 vehicle gas refuelling stations spanning across 59 cities in China

Business Review

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

Gas Connection

During the year, the Group continued to boost connection in existing gas projects, resulting in sustained 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 2011, the gas penetration rate for residential households of the Group's projects in China increased from 36.0% at the end of 2010 to 38.5%. 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 2011, the accumulated length of intermediate and main pipelines constructed by the Group was 18,854 km, and the number of existing natural gas processing stations reached 115. As such, the natural gas supply capacity of 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 1,029,727 residential households, up 17.6% as compared with the number of new connections recorded last year. The Group's strong ability in marketing the new natural gas connections in new and existing residential buildings during the year is the catalyst for new connections over targets. As of the end of 2011, the aggregate number of piped natural gas residential households in the Group's projects amounted to 6,658,272. If other types of piped gas residential households were included, the total number of connected piped gas residential households reached 6,815,165. Supported by the Group's 15 new project cities as well as the level of urbanisation and organic growth in population coverage in its existing project cities in China, the urban population coverage of the Group grew to 53.14 million at the year end. According to past experience in the industry, the gas penetration rate of residential households could reach over 80.0% in each city, while the current gas penetration rate of the Group is only 38.5%. As such, the future development in the residential households market still has huge potential. The continual and substantial growth in the number of connected residential households each year fully demonstrated the Group's strong execution ability. During the year, the average one-off connection fee collected by the Group from its residential households was RMB2,796.

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 obvious. On the other hand, since the series of policies introduced by the central government of China ensuring the priority in the use of natural gas by residential households under all circumstances has guaranteed stability and reliability in the use of gas, natural gas has gained 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 phased completion and operation of long distance pipelines covering the whole country, gas sources have been further enhanced. Given the Group's capability in raising the gas penetration rate of its projects, all these factors encourage connection of piped natural gas in new and existing buildings and stimulate the stable yearly growth in the gas penetration rate of the Group.

Connected C/I customers reached 23,969 sites, total installed designed daily capacity exceeded 25 million m^3

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

During the year, the Group provided natural gas connections for 5,178 commercial/industrial customers (connected to gas appliances with total installed designed daily capacity of 6,823,476 cubic meters) and the average connection fee was RMB173 per standard cubic meter. As of the end of 2011, the aggregate number of piped natural gas C/I customers covered by the Group's projects amounted to 23,501 (connected to gas appliances with total installed designed daily capacity of 25,273,724 cubic meters). If the users of other types of piped gas were included, the total number of connected piped gas C/I customers reached 23,969 (connected to gas appliances with total installed designed daily capacity of 25,767,276 cubic meters).

The Circular Economy Promotion Law promulgated by the Chinese government in 2009 expressly stipulated 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 required the adequate utilisation of solar energy and wind power in the architectural design, building and construction processes. Moreover, developing low-carbon economy has already become a global consensus for different countries in the world to achieve sustainable growth. In the 12th Five-Year Plan, the Chinese government clearly stated the need to enhance the incentive and control regime of energy saving and emission reduction, optimise the energy structure, reasonably control the total energy consumption, improve the pricing system of resource-related products and the tax system for resources and environment, strengthen the laws, regulations and standards on energy saving and emission reduction, enhance the responsibility review of energy saving and emission reduction targets, introduce energy saving and environmental protection measures to production, circulation, consumption and construction processes, and enhance sustainable development. These targets are completely in line with the Group's goal to develop clean energy. 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.

New Projects

In 2011, the Group secured 10 new projects in the first half of the year and another five new projects in the second half of the year, including Panyu District of Guangzhou and Yunan County, Guangdong Province; Changqing District in Jinan, Shandong Province; Zhengdingxin District of Shijiazhuang and Jingxing County, Hebei Province. The commercial and industrial development in these project cities are relatively robust. In Guangdong Province, the most developed industries in Panyu District of Guangzhou are automobile, mechanical engineering, pharmacy and textile while in Yunan County, ceramics, ironware and electric cell industries are more well-established; The Changqing District in Jinan, Shandong Province is more well-known in its mechanical equipment, production of pressure container, food and medicine processing sectors while both the Zhengdingxin District of Shijiazhuang and Jingxing County in Hebei Province are famous for their mechanical production, ceramics and chemical sectors. All the above industries are favourable to the promotion of natural gas. On the other hand, as these new projects are in close proximity to our existing projects and could use gas sources from long distance pipelines or imported LNG, it is very advantageous for the Group to expand the distribution scale of natural gas by fully utilising its existing market resources. The average gas penetration rate of the above projects is only 7.9% currently, representing considerable potentials for further development.

Sales of piped gas

During the year, the Group's total sales volume of piped gas was 5,374 million cubic meters, up 29.5% when compared with last year, of which 5,011 million cubic meters was contributed by sales of natural gas, representing a year-on-year increase of 31.6%. The proportion of piped gas sold to residential households and C/I customers amounted to 15.3% and 66.8% respectively, representing an increase of 28.7% and 29.9% 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. The percentage of total revenue from gas sales over total revenue significantly increased further from 72.1% last year to 72.9%, showing that the Group has now possessed a more stable and long-term revenue base and has reduced its reliance on one-off connection fees, therefore improving and optimising its revenue structure. Given that the overall gas penetration rate of residential households remains at a rather low level of 38.5%, the Group will continue to boost the gas penetration rate of residential households. On the other hand, the consistent growth of China's economy and the stringent execution of the government's energy saving and emission reduction policies also create more potential C/I customers for new connections. 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 stations

The Group continued to regard vehicle gas refuelling business as one of its core businesses. During the year, 46 natural gas refuelling stations (including 27 compressed natural gas ("CNG") refuelling stations and 19 LNG refuelling stations) were built and put into operation, covering 59 cities of the state, among which 20 were not gas project cities of the Group. In addition, as of the end of 2011, the number of vehicle gas refuelling stations which have obtained construction approval from the local governments has accumulated to 522, of which 435 are CNG refuelling stations and 87 are LNG refuelling stations. This year, the Group completed the conversion of 5,294 taxies and 158 buses into CNG vehicles, adding to a total number of 36,325 taxies and 1,543 buses using CNG. Moreover, we have also converted 592 vehicles into LNG vehicles during the year and the daily vehicle gas sales exceeded 55,000 cubic meters.

The Group has been innovating its business model and enhancing its sustainable profitability to increase shareholders' long-term returns. With the Group's confidence in the bright future of the natural gas industry in China and its rich experience in vehicle gas field, the Group developed and rolled out the key development strategy for vehicle/ship LNG business in 2011. Targeting heavy trucks in ports and mines, long-haul buses and ships sailing in shallow waters and lakes, the Group provided economical and clean LNG as a replacement of diesel oil, lowering the customers' operating cost substantially while protecting the environment. During the year, the Group strengthened its organisational structure by setting up the Vehicle/Ship LNG Business Department and the Project Department in existing business areas. They will focus on heavy trucks in mines and ports, intercity buses and public transportation, and penetrate these markets quickly leveraging their strengths and resources. As of the end of 2011, the Group conducted market researches in 20 provinces and municipalities, constructed and launched 19 LNG refuelling stations with another 26 still under construction, exceeding the development goal of the year.

During the year, the proportion of vehicle gas sales over the total volume of gas sales was 13.0% and the sales revenue from vehicle gas was RMB1,620 million, representing an increase of 34.0% over the corresponding period last year.

Gas emission from vehicles is one of the major causes of pollution, especially in densely populated areas and area which is 3 meters above the ground level 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 vehicles has become a growing trend. In addition, the overwhelming economic benefits and environmental friendliness of clean energy such as natural gas as compared to vehicle-use gasoline and diesel have given immense momentum to the growth of the vehicle gas refuelling station business. In 2012, the Group will fully utilise its existing resources and network to expand the promising vehicle-use natural gas business, allowing the Group to make significant contribution to both environmental protection and its profitability.

Gas Source

Following the robust development of the natural gas industry in China in recent years, the relevant infrastructure has been developed at an unprecedented scale and the supply capacity is rising year by year. In 2011, the total consumption of natural gas in China reached 117.4 billion cubic meters, representing a year-on-year increase of about 12.0%.

The West-East Pipeline II and Qin-Shen Pipeline, which have an annual transportation capacity of 30 billion cubic meters and 8 billion cubic meters respectively, have come into full operation and started supplying gas during the year. The import LNG terminals at Rudong, Jiangsu and Dalian, Liaoning, with a capacity of 3.5 million tons and 3 million tons respectively, were completed and put into use in 2011. These projects met the growing demand for natural gas across the country and greatly relieved the excessive demand. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline I and II, Shaanxi-Beijing Pipeline I, II and III, Zhong-Wu Pipeline, Sichuan-East Pipeline, Yulin-Jinan Pipeline, Sebei-Xining-Lanzhou Pipeline, the second Sebei-Xining-Lanzhou Pipeline, Qin-Shen Pipeline, as well as branch pipelines like Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. Meanwhile, the Chinese government planned to build a dozen LNG terminals in coastal areas and five have been put into operation. Moreover, the import LNG terminal at Ningbo, Zhejiang with a capacity of 3 million tons will be completed and launched in 2012. Other import LNG terminals at Qingdao, Zhuhai and Caofeidian of Hebei, which have capacity of 3 million tons, 3.5 million tons and 3.5 million tons respectively, will also be completed and launched in the coming years. In addition, according to the schedule of the Chinese government, a number of natural gas pipeline projects, including West-East Pipeline III and IV, Zhongwei-Guiyang Pipeline, China-Myanmar Oil and Gas Pipeline and Xinjiang-Guangdong Pipeline, will be completed and launched one by one in the coming years. This further ensures that all piped gas projects of the Group will be able to enjoy stable supply of piped gas in the long run.

Besides, relevant information shows that China is rich in unconventional natural gas resources, including shale gas, coalbed methane and coal gas. It is estimated that the reserve of these types of unconventional natural gas is more than five times of that of conventional natural gas. China will put extra efforts in developing and producing unconventional natural gas during the period of the 12th Five-Year Plan. By 2015, the volume of unconventional natural gas is expected to reach 50 billion cubic meters, further guaranteeing the domestic supply of natural gas. In general, piped gas projects of the Group are covered by guaranteed gas supply contracts with upstream suppliers. With a stable source of gas, the Group is therefore able to attract new customers.

Apart from fully utilising such extensive gas pipeline network and LNG terminals, the Group has also endeavored to search for other sources of energy supply. The operation of LNG processing plants built by the Group in Beihai, Yinchuan and Jincheng is satisfactory, with an annual production capacity of 400 million cubic meters in aggregate. On the other hand, the Group invested in the construction of natural gas processing plants in Tangshan, Hebei and Pingdingshan, Henan during the year, which will have a daily production capacity of 300,000 cubic meters and 260,000 cubic meters respectively, and are expected to be completed and start operation in 2012. This will further increase the aggregate annual production capacity of LNG processing plants to nearly 600 million cubic meters and create new gas sources for the gas projects nearby. Moreover, the Group possesses a massive non-pipeline transportation system (including LNG and CNG transportation trucks) with a one-off maximum transportation capacity of over 14 million cubic meters, making the Group one of the largest onshore gas transporters in China and allowing it to secure more stable gas supply and enjoy a higher degree of protection on gas sources.

Winning pieces of the National Children Drawing Competition "My Green Dream" organized by ENN Energy

PROMOTING GREEN LIVING

Advanced collection system for gas usage charges

The Group continues to adopt the prepaid stored-card system for all projects. Under the system, most of the newly-connected residential households will receive a stored-value card and is required to prepay for the gas. This system can eliminate the possibility of bad debts completely and save huge administrative expenses, thus enhancing the Group's cash flow. Meanwhile, by fully utilising the informatisation program jointly developed with IBM China Company Limited ("IBM"), the Group succeeded in introducing various functions, such as the auto-accounting of connection fee charged to customers, payment to personal accounts, and printing and integration of financial vouchers.

On the other hand, some of the Group's project companies have been cooperating with local banks, convenience stores and supermarkets for the collection of gas usage charges. Collecting gas usage charges through the widespread network resources of banks and retail outlets has satisfactory results as it offers great convenience to customers.

Wholesale of Gas

In order to fully utilise the transportation capacity of our trucks, the Group will conduct natural gas wholesale business during the months with lower gas consumption every year and wholesale natural gas to large industrial customers outside the Group's projects and other downstream natural gas operators in relatively smaller scale at a profit margin lower than that of normal piped gas under the circumstances that it will not increase our capital expenditure and can better utilise the existing fleet of cars and relevant infrastructure of CNG and LNG. Given that such wholesale business would not increase our capital expenditure, profits generated from this business segment will enhance returns and create higher values for our shareholders even though it carries a lower profit margin than other businesses.

The Group wholesaled 260 million cubic meters of natural gas during the year, representing an increase of 17.1% as compared to last year and accounting for 4.9% of the total volume of gas sold.

Sales of bottled LPG

During the year, the Group sold 36,402 tons of LPG (2010: 47,919 tons), decreased by 24.0% over last year.

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

Sales of gas appliances

In addition to 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 operates its own production plant of stored-value card gas meters and the products are manufactured for internal use in the Group's connection business as well as sold to other gas distributors. It can lower the cost of connection, ensure collection of gas usage charges and generate additional revenue for the Group at the same time.

Sales of materials

The Group would make a substantial volume of procument of materials in the process of pipeline construction and gas connection works and could enjoy price discount due to the bulk purchase. We would then re-sell some of these materials we purchased at low prices, and thus increasing our revenue and profits.

The materials sold by the Group during the year amounted to RMB592 million, representing an increase of 43.0% over the corresponding period last year and accounting for 3.9% of the Group's total revenue.

Gross and net profit margins

During the year, the Group's overall gross and net profit margins were 25.9% and 11.1% respectively, representing a decrease of 1.0% and 1.4% respectively as compared with last year.

The decrease in gross profit margins was mainly caused by the continuous change in the Group's revenue structure, i.e. the gradual decline of connection fee income over total revenue from 23.5% last year to 22.7%. Since the profit margins of connection fee income is substantially higher than that of gas sales and other major revenue, the shrink of the share of connection fee income in total revenue would then result in the decrease in the gross profit margins. On the other hand, the further decrease in the gross profit margins of piped gas segment was mainly attributable to the overall upward adjustment of natural gas price in China in 2010. Even though the Group was able to maintain the difference between gas purchase price and sales price at the original level, the increase in the base numbers of both purchase and sales prices caused the gross profit margins of piped gas segment to decrease by over 2.0%. Given that the sales of piped gas accounted for more than 50.0% of the total revenue, the overall gross profit margins declined accordingly.

Moreover, the decrease in the net profit margins was mainly due to the one-off expenses incurred during the year, including an expense of RMB95 million for the early redemption of USD200 million high-yield bonds issued by the Group in 2005 and the finance cost arising from the credit facilities of RMB57 million to be used for funding the proposed acquisition of China Gas Holdings Limited announced by the Group during the year.

Advanced safety operation management system

The Group has always regarded safe operation as its top priority and continued to maintain a good record of safe operation this year. 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 were greatly enhanced. The Group also fostered innovation of safety technology and promoted the application of safety equipment and technology, so that the foundation of safety operation was further strengthened. On the other hand, apart from the "3-No" Campaign (no accidents, no personal injuries and no harmful acts to the environment) during the year, the Group also launched the "Year of Safety Management" campaign, under which the safety management framework was rolled out, safety training was organised, hidden risks were addressed and safety supervision was strengthened. To ensure the Group's safe operation, the "Safety Supervision" campaign was also launched to investigate every hidden danger in the operation.

Meanwhile, for the purpose of promoting safe operation in the Group, improving the professional qualifications and expertise of employees, providing better customer services and supporting the rapid development of the Group's gas supply facilities and customer base, the Group developed three levels of capability (i.e. junior, middle and senior) for four job positions, namely workers for construction of gas sites, pipeline paving, on-site installation and maintenance of equipment, as well as gas sales representatives, in 2009. In 2011, the number of employees who gained the capability recognition was 1,927 people, adding to a total of over 6,000 recognised employees, ensuring the safe operation of the Group.

Excellent Management

In 2011, the Group focused on promoting the system application of the informatisation program to enhance operational efficiency, standardise the execution workflow and improve informatisation capability. It also continuously developed system function optimisation and online promotion, remarkably improving the application results and operational efficiency. During the year, the Group continued to promote the systems and expand the business coverage as planned. Core application systems like Enterprise Resources Planning (ERP) and Customer Care Service (CCS) were promoted in 11 group companies. Customer Relationship Management (CRM) system, mobile applications and online workflow systems were promoted in 17, 22 and 20 group companies respectively. As of the end of 2011, the Group processed over 98.0% of business through the information systems. It led to a significant enhancement in operational efficiency and increasingly highlighted the strength of informationalised management.

The Group actively explored the analysis and application methodologies of system data and developed various data analyses, including user gas consumption record data analysis, supplier procurement business data analysis, C/I customer IC card balance data analysis and the workflow system approval efficiency review, to provide a reliable basis for the decision-making in improving the management of relevant businesses. In order to strengthen risk management and control through informatisation systems, the Group developed a financial risk alert report under the system to heighten the risk aversion ability so as to manage the internal points of control of financial risks and clarify the risk warning rules.

During the year, with the continuous use of innovative management tools like balanced scorecard, the Group formulated a market and strategic performance optimisation solution and implemented it in different planning segments such as the annual strategic conference, annual business goal and financial budget planning, so as to ensure that the Group's strategies were effectively delivered to lower levels for implementation and to optimise resource allocation according to the market and strategies.

In order to reduce the financing cost arising from business expansion and allocate the capital between Group companies more effectively to achieve high liquidity, security and profitability of capital, the Group had spent enormous efforts to gain the approval of the China Banking Regulatory Commission to establish ENN Finance Co., Ltd. on 14 April 2011. The finance company serves companies within the Group and has significantly facilitated the capital allocation and enhanced the utilisation of financial resources of the Group as a result. Meanwhile, the operating cost management system, lifecycle asset management system and active risk management system which were set up during the year to facilitate reasonable cost control, enhance asset efficiency and control corporate risks had also played a significant part in achieving these goals.

In addition, to further enhance the management efficiency, the Group optimised the management authorisation system developed in 2010 and improved the management approval processes. The authorisation results were consolidated in the system and has thus ensured standardised, efficient and safe operation of our group companies.

During the year, the Group continued to strengthen the active risk management. As of the end of 2011, the active risk management model was promoted to 65 group companies, improving their ability in key risk prevention, business risk control and emergency response, and their awareness of active risk prevention. The Group also provided various risk training programs for the senior management of group companies, issued 11 guiding documents on internal control, encouraged group companies to conduct comprehensive self-evaluation for internal control and promoted reviews on key businesses and key companies, and has thus successfully enhanced the level of internal control of group companies.

Customer Service

It is always the Group's belief that quality customer service is the key for maintaining good and long term relationships between the Company and customers and the bedrock for the Group's sustainable business development. During the year, apart from the consistent use of informatisation program to provide rapid and efficient services to customers, the Group also continued with the "three-year service campaign" for 2010, 2011 and 2012 to further enhance the service quality. 2011 was the second year of the campaign. According to the ENN Energy customer satisfaction evaluation carried out by a third party company, the Group scored 87.7 points, increasing by 1.5 points as compared with 2010.

The Group started to strengthen its customer service infrastructure in 2010. During 2011, we completed the infrastructure of the service system, with 51 piped gas companies having come into operation and 10 vehicle gas companies having internalised the system manual. Besides, we also established a comprehensive service quality monitoring and evaluation system under which an evaluation model on overall service quality has been effectively applied in the service performance management of different group companies and in different regions, enabling accurate and timely feedback on the service quality in different regions. The successful implementation of the service improvement through-train project resulted in 39 improvements achieved in the year. The construction of call centre

24/7 personalized customer services enhancing clients' satisfaction

progressed steadily, with 5 regional call centres covering Beijing, Hebei, Liaoning, Shandong, Henan, Anhui, Zhejiang and Shanghai and the Dongguan System Backup and Recovery Centre being established, while regional call centres in Jiangsu, Hunan, Hubei and Guangxi are expected to complete in 2012. At the same time, the Group will improve the call centre operation and management system according to the International Customer Operations Performance Centre (COPC) standards, such that the professional management level and service capability of the Group can be enhanced.

During the year, companies within the Group continued to acquire recognition and compliments from customers and government authorities in the cities they operated for their quality customer services, and a number of group companies received awards like "Units with High Consumer Satisfaction" from the local consumer councils for several consecutive years.

All group companies are required to visit customers regularly for safety checks on their gas appliances. These measures, drawing on the concept of "prevention is better than cure", help to eliminate customers' worries on potential safety problems, and thus strengthen 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 key to our advancement, and that the staff could provide satisfactory service to customers only if they are offered the opportunity of healthy development. It is also our faith that talents are the source of our competitiveness and the critical factor for continued success and future development. Hence, the Group has always attached importance to talent cultivation and recruitment.

Following the rapid growth and accelerated internationalisation of the Group, a more stringent standard has been set on the capability and qualification of staff. To enhance the capability and quality of the team, management's appraisal was linked with their performance in team building and talent cultivation. During the year, the Group continued to adopt different approaches, such as establishment of capability enhancement system, talent test and development, training and certification programs hosted by internal instructors, as well as training 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.

First of all, in order to meet the need for operational talents required for the Group's continued rapid growth and build a young management team who deeply recognises the corporate culture and supports the strategic development of the Group, the Group has developed a distinctive training system for young management. A group of outstanding young members would be selected systematically every year to be the future leaders. In 2010, the Group selected 26 young employees to complete 11 related special training modules. Thirteen of them have been promoted as leaders after on-the-job training and evaluation. The Group picked another 21 young employees during the year who are now receiving professional training. We also continued to implement a young backbone management training program and 1,031 young leaders were selected and trained under the program.

Besides, in order to cultivate engineering talents who are responsive to changing situations and versatile, certain employees were shortlisted by the Group to pursue further study and receive training in famous colleges in China or overseas, facilitating the introduction of a talents nurturing program of masters of engineering. In addition to the training bases in Shanghai Tongji University, Chongqing University and Shandong University of Science and Technology, the Group also partnered with Harbin Institute of Technology. During the year, the second class of 57 participants started the training, while over 80 participants for the third class were selected.

As at 31 December 2011, the Group had 21,575 employees, of which 13 were based in Hong Kong while others were based in Mainland China. They were remunerated at market level with benefits that include bonus, retirement benefits, professional training and share option scheme.

Financial Resources Review

Liquidity and financial resources

As at 31 December 2011, the Group's total debts amounted to RMB10,672 million (31 December 2010: RMB6,263 million) and the bank balances and cash for the purpose of computing net gearing ratio amounted to RMB5,869 million (31 December 2010: RMB2,851 million) which include cash and cash equivalents of RMB3,349 million (31 December 2010: RMB2,851 million) and a bank deposit of RMB2,520 million (31 December 2010: nil) in the restricted bank deposits as an escrow for the pre-conditional offer as set out in the commitment section below. The Group's net gearing ratio, i.e. ratio of net debt to equity (including non-controlling interests), was 54.3% (31 December 2010: 45.3%).

Seven-year 7.375% fixed rate bonds

On 28 June 2011, the Company has completed the redemption of the 7-year bonds in aggregate principal amount of US$200 million (equivalent to RMB1,614 million) in full.

Ten-year 6% fixed rate bonds

On 13 May 2011, the Company issued 10-year bonds in the aggregate principal amount of US$750 million (equivalent to RMB4,863 million) with issue price of 99.274% and redemption price of 100%. The coupon of the bonds is 6.0%, and interests are paid semi-annually. The terms of the bonds require Mr. Wang Yusuo, the Chairman of the Company, to retain not less than 25.0% of the issued share capital of the Company throughout the term of the bonds.

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.

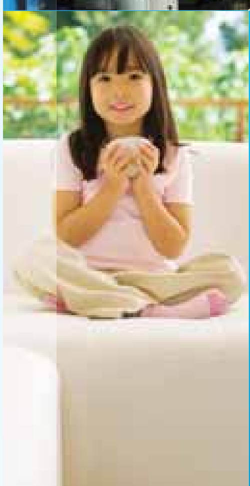
Currently, the Group's operating and capital expenditures are funded by operating cash flow, internal liquidity, bank loans and issued bonds. The Group has sufficient sources of funds and unutilized banking facilities to meet the future capital expenditure and working capital requirements.

Borrowings structure

As at 31 December 2011, the Group's total debts amounted to RMB10,672 million (31 December 2010: RMB6,263 million), including bank loans and bonds of US$878 million (equivalent to RMB5,439 million) and bank loans of HK$11 million (equivalent to RMB9 million). Apart from the US$750 million bonds, RMB1,300 million short-term debenture and RMB500 million corporate bond 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 RMB1,616 million that are secured by assets with an carrying amount equivalent to RMB94 million, all of the other loans are unsecured. Short-term loans amounted equivalent to RMB1,913 million while the remaining were long-term loans falling due after one year or above.

As all the operations of the Group are in PRC, 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.

Nationwide
Customer Service
Hotline: 95158



"We have equipped ourselves with exquisite software and hardware, fortifying our position as a leading energy distributor in China, driving us towards excellence."

Advanced information and management systems ensuring utmost operational efficiency

COMMITMENT TO EXCELLENCE

Directors and Senior Management

From left to right:

WANG Yusuo
CHEUNG Yip Sang

ZHAO Jinfeng
YU Jianchao

CHENG Chak Ngok
ZHAO Shengli
WANG Dongzhi

Sound corporate governance practices by a management team with foresight

Executive Directors

Mr. WANG Yusuo, aged 48, 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 25 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 Builder of Socialism with Chinese Characteristics, Outstanding Entrepreneurs in China and The China Charity Award. Mr. Wang is the spouse of Ms. Zhao Baoju and the brother-in-law of Mr. Zhao Jinfeng. Mr. Wang is a director and a controlling shareholder of ENN Group International Investment Limited ("EGII"), a controlling shareholder of the Company, and the Chairman of Hebei Veyong Bio-Chemical Co., Ltd., a company listed in the Mainland China. Mr. Wang and Ms. Zhao Baoju jointly control various investment holding companies.

Mr. CHEUNG Yip Sang, aged 45, is an Executive Director and the Chief Executive Officer of the Company responsible for the execution of the Group's overall strategies, business expansion and decision-making on important affairs and the executive thereof. 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.

Mr. ZHAO Jinfeng, aged 44, 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 19 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 43, is an Executive Director and 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 23 years of experience in accounting and financial management. Mr. Yu is a director of EGII, which is a controlling shareholder of the Company.

Mr. CHENG Chak Ngok, aged 41, is an Executive Director, the Chief Financial Officer and the Company Secretary of the Company responsible for financial reporting, 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 has also obtained the executive master's degree in business administration from the Peking University in 2009. 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 19 years of experience in accounting, financial management and corporate finance. Mr. Cheng is the vice president and financial controller of EGII, which is a controlling shareholder of the Company.

Mr. ZHAO Shengli, aged 42, is an Executive Director and the Chief Operations Officer of the Company responsible for assisting the Chief Executive Officer in the daily operations and management of the Group. 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. WANG Dongzhi, aged 43, is an Executive Director and the Vice President of the Company responsible for the financial and risk control and investor relations management of Group. 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 in a Sino-foreign joint venture company. He has extensive experience in financial management.

Non-executive Directors

Ms. ZHAO Baoju, aged 46, is a cofounder and a Non-Executive Director of the Company. She has over 19 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 EGII, which is a controlling shareholder of the Company. Ms. Zhao is the spouse of Mr. Wang Yusuo and the sister of Mr. Zhao Jinfeng. Ms. Zhao and Mr. Wang Yusuo jointly control various investment holding companies.

Mr. JIN Yongsheng, aged 48, 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 22 years of experience in legal practice. Mr. Jin is a director and the vice president of EGII, 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.

Independent Non-executive Directors

Mr. WANG Guangtian, aged 48, 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 29 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 41, is an Independent Non-Executive Director appointed by the Company in 2004. She is currently a director of Rothschild (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 42, 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. WAN Jingping, aged 53, is the Executive Vice President of the Company responsible for assisting the Chief Operations Officer in the daily management of the Group's affairs. He graduated from the Shanghai Jiao Tong University in 1991 with a master's degree in engineering. Before joining the Group in 2011, he was the General Manger of the Zhuhai Gas Group Company Limited and the Vice President of the SHV (China) Investment Company Limited, a Dutch company. Mr. Wan is experienced in corporate governance and the development and research in the energy sector.

Mr. HAN Jishen, aged 47, is the Vice President of the Company responsible for assisting the Chief Executive Officer and the Chief Operations Officer in business expansion. 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 19 years of experience in the gas fuel industry in the PRC.

Mr. LIU Yongxin, aged 49, is the Vice President of the Company mainly responsible for assisting the Chief Executive Officer in the expansion of overseas projects and international business. He graduated from Chang'an University in 1987 with a master's degree in vehicle engineering, and obtained a master's degree in finance from the Massey University in New Zealand in 1999. He was awarded the doctor of philosophy in finance and investment management from the Sun Yat-sen University in 2010. 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 19 years' experience in operation and market expansion in the energy sector.

Mr. CHEN Fuchao, aged 55, is the Vice President and General Manager–Zhejiang and Shanghai areas of the Company responsible for assisting the Chief Executive Officer and the Chief Operations Officer in local project management and business 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 for 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 extensive experience in corporate management.

Mr. WANG Fengsheng, aged 42, is the Vice President and General Manager–Jiangsu region of the Company. He joined the Group in 1999 and is responsible for assisting the Chief Executive Officer and the Chief Operations Officer in local project management and business expansion. Prior to joining the Group, Mr. Wang had worked in the Baotou Iron & Steel Group. He received an executive master's degree in business administration from the Cheung Kong Graduate School of Business in 2009. He has extensive experience in corporate governance.

Mr. WU Xingjun, aged 47, is the Vice President and General Manager–Henan and Anhui areas of the Company. He is responsible for assisting the Chief Executive Officer and the Chief Operations Officer in local project management and business expansion. Mr. Wu graduated from the Xi'an University of Technology in 1987 and received an executive master's degree in business administration from the Peking University in 2005. Before joining the Group in 2005, he had worked in Shandong Sacred Sun Power Sources Company Limited and the Yanjing Beer Group. Mr. Wu has extensive experience in corporate governance.

Mr. XU Jinbiao, aged 45, is the Vice President and Director of information system of the Company responsible for information system management. He joined the Group in 2000. He graduated from the China Textile University in 1991 with a bachelor's degree in applied computing, and obtained an executive master's degree in business administration from the Tsinghua University in 2006. Before joining the Group, Mr. Xu had worked in a sizeable state-owned enterprise as the person-in-charge of its information system department. Mr. Xu has wide exposure in the construction of information system in modern corporations.

Mr. LI Shuwang, aged 46, is the Vice President of the Company responsible for assisting the Chief Executive Officer and the Chief Operations Officer in energy trading and materials management. He graduated from the Hebei University of Technology with a bachelor's degree in engineering in 1988 and was awarded the doctor of philosophy in management from the Nation University of USA in 2007. He is currently a part-time professor in the Sun Yat-sen University. Before joining the Group in 2006, he had worked in the Sinopec Group, and was among the first group of constructors and engineers who was awarded the Registered Constructor and Senior Engineer qualification by the state. Mr. Li has extensive experience in the energy sector.

Mr. XUE Zhi, aged 48, is the Vice President and the Chief Engineer of the Company responsible for the management of engineering technology and quality, and gas source allocation. Mr. Xue graduated from the Chongqing Jianzhu University in 1984 with a bachelor's degree in engineering, majoring in urban gas. He also received an executive master's degree in business administration from the Nanyang Technological University in Singapore in 2009. Prior to joining the Group in 2003, Mr. Xue worked at the Central and Southern China Municipal Engineering Design and Research Institute, and had also held the position of Deputy Manager in a gas company in Zhuzhou. Mr. Xue possesses over 27 years' experience in the gas industry and has extensive exposure in the management of gas engineering and innovation of engineering technology.

Mr. HOU Liming, aged 48, is the Vice President of the Company responsible for assisting the Chief Executive Officer and the Chief Operations Officer in the management and operation of vehicle/ship-use LNG business. He graduated from Northeast Forestry University, majoring in industrial and residential construction. Prior to joining the Group in 1992, he had worked in Heilongjiang Yabuli Forestry Bureau. Mr. Hou has wide exposure in corporate governance and business expansion.

Mr. GAO Jihua, aged 44, is the Vice President and General Manager-Hunan, Hubei and Guangxi areas responsible for assisting the Chief Executive Officer and the Chief Operations Officer in local project management and business expansion. He graduated from the Hebei University of Science and Technology in 1989 with a bachelor's degree in engineering, majoring in hotwork and was awarded an executive master's degree in business administration by the Peking University in 2009. Prior to joining the Group in 1999, he had worked in HanDan Metallurgical Machinery Plant and was holding senior managerial position. Mr. Gao has extensive experience in corporate governance and market development.

Mr. OUYANG Su, aged 55, is the Vice President and Executive Deputy General Manager-Hunan, Hubei and Guangxi areas responsible for assisting the Chief Executive Officer and the Chief Operations Officer in local project management and business expansion. He graduated from the China University of Political Science and Law as a postgraduate in economics and management in 2004. Prior to joining the Company in 2003, he had worked in Zhuzhou Water Supply Company and Zhuzhou City Gas Company. Mr. Ouyang has over 28 years of managerial experience in public utilities company.

The Directors have pleasure in submitting to shareholders their annual report and the audited consolidated financial statements (the "Consolidated Financial Statements") for the year ended 31 December 2011.

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 2011 are set out in the Consolidated Statement of Comprehensive Income on page 78.

The Directors recommend the payment of a final dividend of HK$36.23 cents (equivalent to approximately RMB29.37 cents) per share to the shareholders on the register of members on 5 July 2012. The total dividend amount is approximately RMB313 million, and the retention of the remaining profit for the year is approximately RMB940 million.

Financial Summary

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

Property, Plant and Equipment

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB2,739 million has been incurred in acquiring property, plant and equipment.

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 42 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 page 81.

Bank and Other Loans

Details of bank and other loans of the Group are set out in Note 38 to the Consolidated Financial Statements.

Charitable Donations

Charitable donations by the Group for 2011 amounted to RMB20 million.

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 (Chief Financial Officer)
Zhao Shengli
Wang Dongzhi

Non-executive Directors:

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 Wang Yusuo, Zhao Jinfeng, Yu Jianchao and Wang Guangtian retire by rotation and, being eligible, offer themselves for re-election.

As of 31 December 2011, 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 2011, 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:

Name of Director	Capacity	Personal interests	Interests in shares 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 as at 31 December 2011
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	596,00 (Note 2)	326,095,000 (Note 1)	–	326,691,000	1,000,000 (Note 3)	327,691,000	31.17%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of controlled corporation and interest of spouse	–	326,095,000 (Note 1)	596,000 (Note 2)	326,691,000	1,000,000 (Note 3)	327,691,000	31.17%
Mr. Cheung Yip Sang	Beneficial owner	–	–	–	–	3,900,000	3,900,000	0.37%
Mr. Zhao Jinfeng	Beneficial owner	–	–	–	–	2,360,000	2,360,000	0.22%
Mr. Yu Jianchao	Beneficial owner	–	–	–	–	3,600,000	3,600,000	0.34%
Mr. Cheng Chak Ngok	Beneficial owner	–	–	–	–	450,000	450,000	0.04%
Mr. Zhao Shengli (Note 4)	Beneficial owner	–	–	–	–	3,100,000	3,100,000	0.29%
Mr. Wang Dongzhi (Note 4)	Beneficial owner	–	–	–	–	2,450,000	2,450,000	0.23%
Mr. Jin Yongsheng	Beneficial owner	–	–	–	–	400,000	400,000	0.04%
Mr. Wang Guangtian	Beneficial owner	–	–	–	–	200,000	200,000	0.02%
Ms. Yien Yu Yu, Catherine	Beneficial owner	–	–	–	–	200,000	200,000	0.02%
Mr. Kong Chung Kau	Beneficial owner	–	–	–	–	200,000	200,000	0.02%

Notes:

1. The two references to 326,095,000 shares relate to the same block of shares. Such shares are held by ENN Group International Investment Limited ("EGII"), 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. On 14 June 2010, Mr. Wang and Ms. Zhao were granted 800,000 and 200,000 share options respectively by the Company. Mr. Wang, being the spouse of Ms. Zhao, will be deemed to be interested in the share options held by Ms. Zhao while Ms. Zhao, being the spouse of Mr. Wang, will be deemed to be interested in the share options held by Mr. Wang.
4. Mr. Zhao Shengli and Mr. Wang Dongzhi were appointed as Executive Directors of the Company on 25 March 2011.
5. Mr. Liang Zhiwei and Ms. Zhai Xiaoqin retired from directorships of the Company with effect from 31 May 2011. During the period from 1 January 2011 to 31 May 2011 when they were holding directorships of the Company, they were interested in 1,250,000 share options respectively.

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 2011, 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 scheme, 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 2011	Number of options granted during the year	Number of options reclassified during the year	Number of shares subject to outstanding options as at 31 December 2011 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 31 December 2011 (Aggregate)
Mr. Wang	14.06.2010	14.12.2010–14.06.2020	16.26	400,000 (Note 2)	–	–	800,000	0.08%
	14.06.2010	14.06.2012–14.06.2020	16.26	400,000 (Note 2)	–	–		
Ms. Zhao	14.06.2010	14.12.2010–14.06.2020	16.26	100,000 (Note 2)	–	–	200,000	0.02%
	14.06.2010	14.06.2012–14.06.2020	16.26	100,000 (Note 2)	–	–		
Mr. Cheung Yip Sang	14.06.2010	14.12.2010–14.06.2020	16.26	1,950,000	–	–	3,900,000	0.37%
	14.06.2010	14.06.2012–14.06.2020	16.26	1,950,000	–	–		
Mr. Zhao Jinfeng	14.06.2010	14.12.2010–14.06.2020	16.26	1,180,000	–	–	2,360,000	0.22%
	14.06.2010	14.06.2012–14.06.2020	16.26	1,180,000	–	–		
Mr. Yu Jianchao	14.06.2010	14.12.2010–14.06.2020	16.26	1,800,000	–	–	3,600,000	0.34%
	14.06.2010	14.06.2012–14.06.2020	16.26	1,800,000	–	–		
Mr. Cheng Chak Ngok	14.06.2010	14.12.2010–14.06.2020	16.26	225,000	–	–	450,000	0.04%
	14.06.2010	14.06.2012–14.06.2020	16.26	225,000	–	–		
Mr. Liang Zhiwei (Note 3)	14.06.2010	14.12.2010–14.06.2020	16.26	625,000	–	(625,000)	–	–
	14.06.2010	14.06.2012–14.06.2020	16.26	625,000	–	(625,000)		
Ms. Zhai Xiaoqin (Note 3)	14.06.2010	14.12.2010–14.06.2020	16.26	625,000	–	(625,000)	–	–
	14.06.2010	14.06.2012–14.06.2020	16.26	625,000	–	(625,000)		
Mr. Zhao Shengli (Note 4)	14.06.2010	14.12.2010–14.06.2020	16.26	–	–	1,550,000	3,100,000	0.29%
	14.06.2010	14.06.2012–14.06.2020	16.26	–	–	1,550,000		
Mr. Wang Dongzhi (Note 4)	14.06.2010	14.12.2010–14.06.2020	16.26	–	–	1,225,000	2,450,000	0.23%
	14.06.2010	14.06.2012–14.06.2020	16.26	–	–	1,225,000		
Mr. Jin Yongsheng	14.06.2010	14.12.2010–14.06.2020	16.26	200,000	–	–	400,000	0.04%
	14.06.2010	14.06.2012–14.06.2020	16.26	200,000	–	–		
Mr. Wang Guangtian	14.06.2010	14.12.2010–14.06.2020	16.26	100,000	–	–	200,000	0.02%
	14.06.2010	14.06.2012–14.06.2020	16.26	100,000	–	–		
Ms. Yien Yu Yu, Catherine	14.06.2010	14.12.2010–14.06.2020	16.26	100,000	–	–	200,000	0.02%
	14.06.2010	14.06.2012–14.06.2020	16.26	100,000	–	–		
Mr. Kong Chung Kau	14.06.2010	14.12.2010–14.06.2020	16.26	100,000	–	–	200,000	0.02%
	14.06.2010	14.06.2012–14.06.2020	16.26	100,000	–	–		
Total				14,810,000	–	3,050,000	17,860,000	

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. On 14 June 2010, Mr. Wang and Ms. Zhao were granted 800,000 and 200,000 share options respectively by the Company. Mr. Wang, being the spouse of Ms. Zhao, will be deemed to be interested in the share options held by Ms. Zhao while Ms. Zhao, being the spouse of Mr. Wang, will be deemed to be interested in the share options held by Mr. Wang.
3. Mr. Liang Zhiwei and Ms. Zhai Xiaoqin retired from directorships of the Company with effect from 31 May 2011. The share options granted to Mr. Liang Zhiwei and Ms. Zhai Xiaoqin were therefore reclassified from "Directors" to "Employees" on 31 May 2011.
4. Mr. Zhao Shengli and Mr. Wang Dongzhi were appointed as Executive Directors of the Company on 25 March 2011. The share options granted to Mr. Zhao Shengli and Mr. Wang Dongzhi were therefore reclassified from "Employees" to "Directors" on 25 March 2011.

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 2011, 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	Personal interests	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 (Note 4)	Approximate percentage of the Company's total issued share capital as at 31 December 2011
Mr. Wang	Beneficial owner and interest of controlled corporation	596,000 (Note 2)	326,095,000 (Note 1)	–	326,691,000	1,000,000 (Note 3)	327,691,000 (L)	31.17%
Ms. Zhao	Interest of controlled corporation and interest of spouse	–	326,095,000 (Note 1)	596,000 (Note 2)	326,691,000	1,000,000 (Note 3)	327,691,000 (L)	31.17%
EGII	Beneficial owner	–	326,095,000 (Note 1)	–	326,095,000	–	326,095,000 (L)	31.02%
Capital Research and Management Company	Investment manager	–	105,512,700	–	105,512,700	–	105,512,700 (L)	10.04%
Commonwealth Bank of Australia	Interest of controlled corporation	–	94,473,000	–	94,473,000	–	94,473,000 (L)	8.99%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent	–	63,194,094	–	69,194,094	–	63,194,094 (L) (including 59,481,038 (P))	6.01%

Notes:

1 The three references to 326,095,000 shares relate to the same block of shares. Such shares are held by EGII, 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. On 14 June 2010, Mr. Wang and Ms. Zhao were granted 800,000 and 200,000 share options respectively by the Company. Mr. Wang, being the spouse of Ms. Zhao, will be deemed to be interested in the share options held by Ms. Zhao while Ms. Zhao, being the spouse of Mr. Wang, will be deemed to be interested in the share options held by Mr. Wang.
4. (L) represents Long Position; (P) represents Lending Pool.

Save as disclosed above, as at 31 December 2011, 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 2011, 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 46 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$)	Number of shares subject to outstanding options as at 1 January 2011	Number of shares involved under options exercised during the year	Number of options reclassified during the year due to change of directorships: Appointment of Directors (Note 2)	Number of options reclassified during the year due to change of directorships: Retirement of Directors (Note 3)	Number of shares subject to outstanding options as at 31 December 2011 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 31 December 2011 (Aggregate)	Weighted average closing price of shares immediately before the date of exercise of options (HK$)
Directors	14.06.2010	14.12.2010–14.06.2020	16.26	7,405,000	–	2,775,000	(1,250,000)	17,860,000	1.70%	27.85
	14.06.2010	14.06.2012–14.06.2020	16.26	7,405,000	–	2,775,000	(1,250,000)			
Employees	14.06.2010	14.12.2010–14.06.2020	16.26	9,340,000	(1,000,000)	(2,775,000)	1,250,000	14,630,000	1.39%	27.85
	14.06.2010	14.06.2012–14.06.2020	16.26	9,340,000	–	(2,775,000)	1,250,000			
Total				33,490,000	(1,000,000)	–	–	32,490,000	3.09%	–

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. Mr. Zhao Shengli and Mr. Wang Dongzhi, who were interested in 3,100,000 share options and 2,450,000 share options respectively, were appointed as Executive Directors of the Company on 25 March 2011. The share options granted to Mr. Zhao Shengli and Mr. Wang Dongzhi were therefore reclassified from "Employees" to "Directors" on 25 March 2011.
3. Mr. Liang Zhiwei and Ms. Zhai Xiaoqin, who were interested in 1,250,000 share options respectively, retired from directorships of the Company with effect from 31 May 2011. The share options granted to Mr. Liang Zhiwei and Ms. Zhai Xiaoqin were therefore reclassified from "Directors" to "Employees" on 31 May 2011.

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 31 December 2010, 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	1.1.2011	1 year	Office building in Langfang city	2,000,000
(ii) Langfang Elephant Club Property Services Company Limited ("Elephant Club Services")	Xinao Gas Development Company Limited	1.1.2011	1 year	Office building in Langfang city	800,000
(iii) Elephant Club Services	Langfang Xinao Gas Company Limited	1.1.2011	1 year	Gas processing station in Langfang city	600,000
(iv) Elephant Club Services	Langfang Branch, Xinao (China) Gas Development Company Limited	1.1.2011	1 year	Office bulding in Langfang city	100,000
(v) Elephant Club Services	Langfang Xinao Gas Equipment Company Limited	1.1.2011	1 year	Office building in Langfang city	323,000
(vi) Elephant Club Services	Xinao Energy Logistics Company Limited	1.4.2011	1 year	Office building in Langfang city	282,000
(vii) Elephant Club Services	Xinao Energy Trading Company Limited	1.4.2011	1 year	Office building in Langfang city	282,000
(viii) Elephant Club Management	Langfang Xinao Gas Company Limited	1.1.2011	1 year	Office building in Langfang city	500,000
(ix) Elephant Club Services	Xinao Gas Development Company Limited	1.4.2011	1 year	Office building in Langfang city	1,250,000
					6,137,000

(B) On 31 December 2010, 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	Subsidiaries under ENN Energy Holdings Limited	1.1.2011	• Transportation services	31,093,000
• Xinao Group Elephant Club Hotel Company Limited			• Hotel services	
• Elephant Club Services			• Catering services	
• Xinao Group Company Limited			• Repair and maintenance services	
• Xinbo Zhuochang Technology (Beijing) Company Limited			• Cultural services	
• Beihai Ovation International Travel Agency Company Limited			• Provision of expert	
• Beihai Travel Reception Service Centre Company Limited			• Sharing services	

(C) On 31 December 2010, 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	16,320,000

(D) On 31 December 2010, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies agree to provide energy technology supporting services to the Group, including but not limited to solutions, project development, sub-contracting (construction services related), operational guidance, basic management and related training.

Energy Technology Supporting Services

Service providing party (Note 1)	Service accepting party	Service	Contract sum (RMB)
(i) Xinao Energy Services Company Limited	Subsidiaries under ENN Energy Holdings Limited	Energy technological support	2,209,000

The auditor of the Company has conducted an engagement with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants and has provided a letter to the Board of Directors of the Company confirming that based on the procedures carried out on the continuing connected transactions by the auditor of the Company:

(a) nothing has come to the auditor's attention that causes the auditor to believe that the continuing connected transactions disclosed in this report have not been approved by the Company's Board of Directors.

(b) nothing has come to the auditor's attention that causes the auditor to believe that the continuing connected transactions disclosed in this report were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

(c) with respect to the aggregate amount of each of the continuing connected transactions disclosed in this report, nothing has come to the auditor's attention that causes the auditor to believe that the continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the Company's announcement dated 31 December 2010 made in respect of each of the continuing connected transactions.

Exempted Connected Transactions

(A) Gas Connection Service

Service providing party	Service accepting party	Service	Contract sum (RMB)
(i) Xinao Gas Development Company Limited	Langfang Xinao Property Development Company Limited (note 1)	Gas connection for residential and commercial/industrial ("C/I") customers	1,867,000
(ii) Huludao Xinao Gas Development Company Limited	Huludao Xinao Property Company Limited (note 1)	Gas connection for residential customers	9,000
(iii) Longyou Xinao Gas Company Limited	Xinao Energy Services Company Limited	Gas connection for C/I customers	500,000
(iv) Bozhou Xinao Gas Engineering Company Limited	Bozhou City Construction Investment Company Limited (note 2)	Gas connection for residential customers	7,556,000
			9,932,000

(B) Construction Service

Service providing party	Service accepting party	Service	Contract sum (RMB)
(i) Shantou City Chenghai Gas Construction Company Limited (note 2)	Shantou Xinao Gas Company Limited	Construction of pipeline	5,350,000
(ii) Langfang Xinao Solar Energy Integration Company Limited (note 1)	Xinao Energy Logistics Company Limited	Installation of solar panel	1,811,000
			7,161,000

(C) Property Leasing Service

Service providing party	Service accepting party	Contract date	Contract period	Property	Contract sum (RMB)
(i) Changsha City Gas Industry Company (note 2)	Changsha Xinao Gas Company Limited	1.1.2011	1 year	Office building, street store and warehouse in Changsha City	1,600,000
(ii) Changsha City Gas Industry Company (note 2)	Xinao Gas Engineering Company Limited	1.12.2011	3 years	Warehouse in Changsha City	36,000
(iii) Haining City Wantong Gas Company Limited (note 2)	Haining Xinao Gas Company Limited	1.1.2008	–	Canteen and land parcel in Haining City	60,000
(iv) Nanan City Trading, Industrial and Agricultural Investment Management Company Limited (note 2)	Nanan City Gas Company Limited	1.2.2009	3 years	Office building in Nanan City	10,000
(v) Langfang Xinao Gas Company Limited	Xinao Group Company Limited (note 1)	1.1.2011	3 years	Office building in Langfang city	1,475,000 (including RMB436,000 management fee)
(vi) Beihai Xinao Gas Company Limited	Beibu Gulf Travel Company Limited (note 1)	1.1.2011	3 months	Office building in Beihai	180,000
(vii) Xinao Group Company Limited (note 1)	Xinao Gas Development Company Limited	1.1.2011	3 years	Office building in Langfang city	2,596,000
					5,957,000

(D) Land Leasing

Lessor (Note 2)	Lessee	Contract date	Contract period	Property	Contract sum (RMB)
(i) 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	96,000
(ii) Xinxiang City Public Transportation Company	Xinxiang Xinao Gas Company Limited	1.1.2010	3 years	Land parcel on which gas refuelling station is located	160,000
(iii) Xinxiang City Public Transportation Company	Xinxiang Xinao Vehicle Gas Company Limited	1.1.2010	5 years	Land parcel on which gas refuelling station is located	160,000
					416,000

(E) Transportation Service

Service providing party	Service accepting party	Service	Contract sum (RMB)
Tongliao City Rixin Natural Gas Company Limited (note 2)	Xinao Energy Logistics Company Limited	Transportation of energy	1,994,000

(F) Purchase of materials

Seller (Note 1)	Buyer	Transaction	Contract sum (RMB)
(i) Langfang InterSmart Robotic Systems Company Limited	Xinao Energy Trading Company Limited	Purchase of materials	112,000
(ii) Langfang Xinao Solar Energy Integration Company Limited	Xinao Energy Logistics Company Limited	Purchase of materials	380,000
(iii) Langfang Xinao Solar Energy Integration Company Limited	Xinao Energy Logistics Company Limited	Purchase of materials	174,000
			666,000

(G) Purchase of Land

Seller	Buyer	Transaction	Contract sum (RMB)
Changsha Economic Technology Development Company Limited (note 2)	Changsha Xinao Gas Company Limited	Purchase of land	7,682,000

(H) Supporting Services

Service providing party	Service accepting party	Service	Contract sum (RMB)
Changsha City Gas Industry Company (note 2)	Changsha Xinao Gas Company Limited	Comprehensive services	2,513,000

(I) Purchase of Property

Seller	Buyer	Transaction	Contract sum (RMB)
Beihai Xinao Gas Company Limited	Beibu Gulf Travel Company Limited (note 1)	Purchase of office building	20,000,000

(J) Sales of Equity

Seller	Buyer	Transaction	Contract sum (RMB)
Xinao (China) Gas Investment Company Limited	Beibu Gulf Travel Company Limited (note 1)	Sales of equity	19,600,000

Notes:

1. Wang Family Companies are companies controlled (entitled to exercise, or control the exercise of 30% or more of the voting power at any 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 Group 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 Group.
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.

Event after the Reporting Period

Details of significant event occurring after the reporting period are set out in Note 56 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 46 to the Consolidated Financial Statements, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2011.

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.

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. Three Audit Committee meetings were held during the financial year, and the Audit Committee has reviewed the audited annual accounts for 2010 and the unaudited interim accounts for 2011. As of the date of this report, the Audit Committee has also reviewed the audited annual accounts for 2011.

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 ("AGM") of the Company held on 31 May 2011 due to business trip. Alternatively, Mr. Cheng Chak Ngok, the executive Director and Company Secretary of the Company attended and acted as the chairman of the said AGM. Details of compliance are set out in the Corporate Governance Report on pages 53 to 76 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 throughout the year.

Public Float

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

Loan Agreements Imposing Specific Performance Obligations on Controlling Shareholders

The Company 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 million (equivalent to RMB1,614 million). On 28 June 2011, the Company has completed the redemption of such 7-year bonds in full and therefore, the abovementioned obligation has been released.

On 13 May 2011, the Company issued 10-year bonds and the terms and conditions of the bonds require Mr. Wang Yusuo, the controlling shareholder of the Company, to retain at least 25% of the total issued share capital of the Company throughout the term of the bonds. The total amount of the loan involved is US$750 million (equivalent to RMB4,863 million).

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.

Auditor

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

On behalf of the Board
WANG Yusuo
Chairman

Hong Kong, 27 March 2012

The Company is committed to upholding good corporate governance practices. The corporate governance principles of the Company emphasize 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, Transport and Transmission"
- Year 2010 "Silver, Overall Annual Report: Gas Distribution, Transport and Transmission"
- Year 2010 "Bronze, Interior Design: Gas Distribution, Transport and Transmission"
- Year 2011 "Merit, Cover Design: Oil and Natural Gas Production and Service"

Annual International Galaxy Awards

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

Vision Awards

- Year 2009 "Platinum Award"
- Year 2009 "Top 100 Annual Report of 2009"
- Year 2009 "Best Annual Report Cover – Gold, Asia Pacific Region"

International LACP Awards

- Year 2011 "Gold: Energy, Oil, Natural and Fuels"

Code on Corporate Governance Practices

During 2011, 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") for the time being in force, 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.

As of the end of 2011, the active risk management model was promoted to 65 group companies, improving their ability in key risk prevention, business risk control and emergency response, and their awareness of active risk prevention. The Group also provided various risk training programs for the senior management of group companies, issued 11 guiding documents on internal control (covering 80% of the Group's businesses), encouraged group companies to conduct comprehensive self-evaluation for internal control and promoted reviews on key businesses and key companies, and has thus successfully enhanced the level of internal control of group companies.

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.

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. Currently, the Group's business processes such as the procurement-payment, the sales-fee-collection business cycle and the expenses claiming procedure are under strict control and in compliance under the SAP system. These informationalisation measures have significantly enhanced the effectiveness of governance.

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 2011, a total of 11 Board meetings (including four regular Board meetings) were held. Details of Directors' attendance record of Board meetings and Board Committees meetings in 2011 are as follows:

Board meeting

Director	*Attendance*	
Mr. Wang Yusuo	6/11	(3/4)*
Mr. Cheung Yip Sang	8/11	(4/4)*
Mr. Zhao Jinfeng	8/11	(4/4)*
Mr. Yu Jianchao	10/11	(4/4)*
Mr. Cheng Chak Ngok	10/11	(4/4)*
Mr. Liang Zhiwei (retired with effect from 31 May 2011)	3/3	(1/1)*
Ms. Zhai Xiaoqin (retired with effect from 31 May 2011)	3/3	(1/1)*
Mr. Zhao Shengli (appointed on 25 March 2011)	5/9	(3/3)*
Mr. Wang Dongzhi (appointed on 25 March 2011)	7/9	(3/3)*
Ms. Zhao Baoju	7/11	(4/4)*
Mr. Jin Yongsheng	7/11	(3/4)*
Mr. Wang Guangtian	7/11	(3/4)*
Ms. Yien Yu Yu, Catherine	9/11	(4/4)*
Mr. Kong Chung Kau	8/11	(4/4)*

* *regular Board meetings*

Audit Committee meeting

Committee member	*Attendance*
Mr. Kong Chung Kau	3/3
Mr. Wang Guangtian	2/3
Ms. Yien Yu Yu, Catherine	3/3

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	• During the year under review, 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. Cheung Yip Sang, 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. Cheung Yip Sang has no other relationship with Mr. Wang Yusuo.
• The chairman should ensure all directors be briefed on issues arising at board meetings.	Yes	• Currently, the Chairman is responsible for provision of the necessary information, either through himself or other members of the management, to all Directors on issues arising at the Board meeting.
• The chairman should ensure that directors receive adequate information.	Yes	• The Board has established procedure regarding supply 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. • Encourage directors to make a full and active contribution to board affairs. • Facilitate the effective contribution of non-executive directors and ensure constructive relations between executive and non-executive directors. • Ensure effective communication with shareholders and views of shareholders are communicated to the board as a whole.	Yes	• The Chairman plays a key role in ensuring good corporate governance practices and encouraging active participation and constructive contribution and relations of the Directors. • The Board has taken the following measures in relation to corporate governance practices: 1. the Board has adopted guidelines regarding: a) the roles and responsibilities of the Board and the senior management; b) the procedure for the Directors to seek independent professional advice at the Company's expenses; c) the division of responsibilities between the Chairman and the CEO; and d) dealing in the securities of the Company by Directors or relevant employees of the Group. 2. the Company arranged training programmes and seminars on various topics covering, inter alia, matters relating to the interpretation of government policies, execution of corporate strategy, establishment of market system, corporate monitoring and management as well as set-up of human resources system. • 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. • 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 2011, the Board members were as follows:

Mr. Wang Yusuo	(Chairman and Executive Director)
Mr. Cheung Yip Sang	(CEO and Executive Director)
Mr. Zhao Jinfeng	(Executive Director)
Mr. Yu Jianchao	(Executive Director)
Mr. Cheng Chak Ngok	(CFO and Executive Director)
Mr. Zhao Shengli	(Executive Director)
Mr. Wang Dongzhi	(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 37 to 38 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 2011, 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 2010 and the interim results of the Group for the 6 months period ended 30 June 2011;
3. considered and approved the issue of US$750 million senior notes due 2021 and the redemption of 2012 guaranteed notes;
4. considered and approved the adjustment on the remuneration of non-executive directors and independent non-executive directors;
5. reviewed the effectiveness of the system of internal control and risk management of the Group;
6. reviewed general mandates to issue and repurchase shares of the Company; and
7. considered and approved a pre-conditional voluntary general offer which may constitute a very substantial acquisition of the Company.

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.

As at 31 December 2011, 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. However, in order to comply with the revised Code Provision A.5 coming into effect on 1 April 2012, the Board has established a nomination committee chaired by Mr. Wang Yusuo (Chairman of the Board) and comprises Mr. Wang Guangtian (Independent non-executive Director), Ms. Yien Yu Yu, Catherine (Independent non-executive Director), Mr. Kong Chung Kau (Independent non-executive Director) and Mr. Jin Yongsheng (Non-executive Director) on 30 March 2012. The nomination committee will be responsible to perform the abovementioned responsibilities hereafter.

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	• It is the practice of the Company to seek shareholders' approval of the further appointment of an independent non-executive director serving more than nine years. Mr. Wang Guangtian, who will retire by rotation on the forthcoming annual general meeting, has served the Company for more than nine years. The Company intends to further appoint him as an independent non-executive Director. Shareholders' approval will be sought 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 2011, the Company organised two series of internal training programmes and seminars for the Directors and the senior management on various matters relating to the interpretation of government policies, execution of corporate strategy, establishment of market system, corporate monitoring and management as well as set-up of human resources system. 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 consists of the following members as at 31 December 2011:

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 2010 annual report was awarded by independent association as "Gold: Energy, Oil, Natural Gas and Fuels" and "Merit, Cover Design: Oil and Natural Gas Production and Service".

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 2011.
• 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 made adjustments to the authority management system according to the development of each company. Clear division of authority between the shareholders, directors and management was defined so that a balance between management efficiency and risk management can be achieved. • 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 is responsible for performing 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 consists of the following members as at 31 December 2011:

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 3 times during the year under review to 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 2011, 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 2011	
• Audit fee paid – Interim review	RMB884,000
• Audit fee payable – Annual audit (subject to final agreement with the auditors)	RMB4,150,000

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.

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.

In addition, a nomination committee chaired by Mr. Wang Yusuo and comprises Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine, Mr. Kong Chung Kau and Mr. Jin Yonsheng has been established on 30 March 2012 in order to comply with the revised Code Provision A.5 coming into effect on 1 April 2012. The nomination committee will be responsible to perform the responsibilities set out in Section A.4 above.

Code Provisions	Compliance	Details of Compliance
• Clear terms of reference to enable proper discharge of committee functions.	Yes	• During the year under review, the Company 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 2011 due to business trips. Alternatively, Mr. Cheng Chak Ngok, the executive Director and Company Secretary of the Company, attended and acted as the chairman of the said annual general meeting. • The Chairman and a member of the Audit Committee, both of whom were also members of the Remuneration Committee, attended the said annual general meeting in 2011.
• 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 2011, 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 2011 annual general meeting was sent to shareholders on 7 April 2011, 33 clear business days before the meeting which was held on 31 May 2011. • There was no other general meeting in 2011.

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 2011, an annual general meeting of the Company will be held on 26 June 2012 and it is currently expected that interim results for the six months ended 30 June 2012 will be announced in August 2012. 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.

Other shareholders' rights including the procedures for shareholders to put forward proposals at general meetings, direct enquiries to the Board and propose a person for election as a director is available at the Company's website at www.xinaogas.com.

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 and 3 international road shows, covering Hong Kong, Mainland China, 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. The Company has also delivered good interim and annual reports to shareholders which allow them to have a basic understanding of the natural gas industry, policy in China, prospect and the financial performance of the Company. 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 3101–04, 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 ENN ENERGY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of ENN Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 78 to 160, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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, in accordance with our agreed terms of engagement, 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 about 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 of consolidated financial statements that give a true and fair view 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 of the Company, 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 Group's state of affairs as at 31 December 2011, and of its 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
27 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 RMB million	2010 RMB million
Revenue	7	**15,068**	11,215
Cost of sales		**(11,166)**	(8,203)
Gross profit		**3,902**	3,012
Other income	8	**167**	114
Other gains and losses	9	**14**	96
Distribution and selling expenses		**(283)**	(213)
Administrative expenses		**(1,380)**	(1,169)
Share of results of associates		**51**	5
Share of results of jointly controlled entities		**316**	277
Finance costs	10	**(460)**	(311)
Profit before tax	11	**2,327**	1,811
Income tax expense	13	**(660)**	(410)
Profit and total comprehensive income for the year		**1,667**	1,401
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**1,253**	1,013
Non-controlling interests		**414**	388
		1,667	1,401

		2011 RMB	2010 RMB
Earnings per share	15		
– Basic		**1.19**	0.97
– Diluted		**1.18**	0.95

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 RMB million	2010 RMB million
Non-current Assets			
Property, plant and equipment	16	**13,073**	10,800
Prepaid lease payments	17	**695**	658
Investment properties	18	**57**	54
Goodwill	19	**196**	192
Intangible assets	20	**1,051**	702
Interests in associates	21	**694**	488
Interests in jointly controlled entities	22	**1,733**	1,361
Available-for-sale financial assets	23	**14**	14
Loan receivable	24	**3**	6
Other receivables	25	**5**	72
Amounts due from associates	26	**39**	21
Amounts due from jointly controlled entities	27	**66**	–
Amounts due from related companies	28	**26**	21
Deferred tax assets	29	**176**	131
Deposits paid for investments	30	**41**	30
Deposits paid for acquisition of property, and plant and equipment, land use rights and operation rights		**68**	6
Restricted bank deposits	31	**7**	5
		17,944	14,561
Current Assets			
Inventories	32	**272**	249
Trade and other receivables	25	**1,837**	1,356
Prepaid lease payments	17	**17**	13
Amounts due from customers for contract work	33	**201**	307
Amounts due from associates	26	**31**	12
Amounts due from jointly controlled entities	27	**404**	213
Amounts due from related companies	28	**31**	13
Restricted bank deposits	31	**2,675**	65
Cash and cash equivalents	34	**3,349**	2,851
		8,817	5,079
Assets classified as held for sale	35	**127**	–
		8,944	5,079

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	2011 RMB million	2010 RMB million
Current Liabilities			
Trade and other payables	36	**4,172**	3,574
Amounts due to customers for contract work	33	**989**	665
Amounts due to associates	26	**119**	69
Amounts due to jointly controlled entities	27	**627**	554
Amounts due to related companies	37	**37**	41
Taxation payables		**234**	172
Bank and other loans – due within one year	38	**1,913**	1,569
Short-term debentures	39	**1,300**	810
Financial guarantee liability	40	**9**	6
Deferred income	41	**44**	29
		9,444	7,489
Liabilities associated with assets held for sale	35	**76**	–
		9,520	7,489
Net Current Liabilities		**(576)**	(2,410)
Total Assets less Current Liabilities		**17,368**	12,151
Capital and Reserves			
Share capital	42	**110**	110
Reserves		**6,936**	5,922
Equity attributable to owners of the Company		**7,046**	6,032
Non-controlling interests		**1,794**	1,508
Total Equity		**8,840**	7,540
Non-current Liabilities			
Bank and other loans – due after one year	38	**2,327**	2,568
Corporate bond	43	**496**	–
Senior notes	44	**4,636**	–
Guaranteed notes	45	**–**	1,316
Deferred tax liabilities	29	**337**	225
Deferred income	41	**732**	502
		8,528	4,611
		17,368	12,151

The consolidated financial statements on pages 78 to 160 were approved and authorised for issue by the Board of Directors on 27 March 2012 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 2011

	Equity attributable to owners of the Company									
	Share capital RMB million (Note 42)	Share premium RMB million	Special reserve RMB million (Note a)	Share options reserve RMB million	Statutory surplus reserve fund RMB million (Note b)	Designated safety fund RMB million (Note c)	Retained earnings RMB million	Total RMB million	Equity attributable to non-controlling interests RMB million	Total equity RMB million
Balance at 1 January 2010	110	2,184	(18)	–	307	14	2,520	5,117	1,310	6,427
Profit and total comprehensive income for the year	–	–	–	–	–	–	1,013	1,013	388	1,401
Acquisition of businesses (Note 47(b))	–	–	–	–	–	–	–	–	1	1
Acquisition of assets through acquisition of subsidiaries (Note 48)	–	–	–	–	–	–	–	–	26	26
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	8	8
Acquisition of additional interests in subsidiaries	–	–	1	–	–	–	–	1	(8)	(7)
Recognition of equity settled share-based payment	–	–	–	101	–	–	–	101	–	101
Dividend appropriation (Note 14)	–	–	–	–	–	–	(200)	(200)	–	(200)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(217)	(217)
Transfer to statutory surplus reserve fund	–	–	–	–	61	–	(61)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	12	(12)	–	–	–
Balance at 31 December 2010	110	2,184	(17)	101	368	26	3,260	6,032	1,508	7,540
Profit and total comprehensive income for the year	–	–	–	–	–	–	**1,253**	**1,253**	**414**	**1,667**
Issue of shares upon exercise of share option (Note 46)	–	**18**	–	**(5)**	–	–	–	**13**	–	**13**
Acquisition of businesses (Note 47(a))	–	–	–	–	–	–	–	–	**45**	**45**
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	**58**	**58**
Acquisition of additional interest in a subsidiary	–	–	**(1)**	–	–	–	–	**(1)**	**(1)**	**(2)**
Recognition of equity settled share-based payment	–	–	–	**46**	–	–	–	**46**	–	**46**
Dividend appropriation (Note 14)	–	–	–	–	–	–	**(297)**	**(297)**	–	**(297)**
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	**(230)**	**(230)**
Transfer to statutory surplus reserve fund	–	–	–	–	**41**	–	**(41)**	–	–	–
Transfer to designated safety fund	–	–	–	–	–	**12**	**(12)**	–	–	–
Balance at 31 December 2011	**110**	**2,202**	**(18)**	**142**	**409**	**38**	**4,163**	**7,046**	**1,794**	**8,840**

Notes:

a. The balance as of 31 December 2010 represented the difference between paid up capital of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition amounting to RMB2 million during the group restructuring carried out for the purpose of initial offering of the Company's shares in 2001 and the difference between the fair value and the carrying values of the underlying assets and liabilities attributable to the additional acquisition of interest in subsidiaries of RMB19 million.

   During the year ended 31 December 2011, the Group acquired additional interest in a subsidiary from a non-controlling shareholder, the difference between the consideration paid and the carrying amount of non-controlling interests in respect of the additional interest in a subsidiary of RMB1 million is dealt with in reserve and attributable to owners of the Company.

b. In accordance with the People's Republic of China ("PRC") regulations, the statutory surplus reserve fund retained by subsidiaries in the PRC is non-distributable.

c. 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 2011

	Notes	**2011** **RMB million**	2010 RMB million
Operating activities			
Profit before tax		**2,327**	1,811
Adjustments for:			
Share of results of associates		**(51)**	(5)
Share of results of jointly controlled entities		**(316)**	(277)
Exchange gain of guaranteed notes		**(168)**	(41)
Impairment loss on property, plant and equipment		**–**	15
Reversal of impairment loss on trade and other receivables, net		**(23)**	(17)
Loss on disposal of property, plant and equipment		**5**	20
Gain on disposal of prepaid lease payments		**–**	(20)
Gain on disposal/deregistration of jointly controlled entities		**–**	(3)
Gain on derecognition/disposal of subsidiaries	49	**–**	(10)
Loss on deregistration of subsidiaries		**–**	1
Increase in fair value of investment properties		**(8)**	(3)
Share-based payment expenses		**46**	101
Depreciation of property, plant and equipment		**482**	409
Amortisation of intangible assets		**37**	32
Release of prepaid lease payments		**18**	14
Fair value adjustment on interest-free advances to related companies at initial recognition		**3**	–
Reversal of fair value adjustment on interest-free advances due to early settlement		**–**	(4)
Financial guarantee income		**(5)**	(2)
Bank interest income		**(46)**	(26)
Imputed interest on interest-free advances to related companies		**–**	(1)
Premium an early redemption of guaranteed notes		**95**	–
Interest expenses		**460**	311
Deferred income released to profit or loss		**(36)**	(24)
		2,820	2,281
Movements in working capital:			
(Increase) decrease in inventories		**(16)**	37
Increase in trade and other receivables		**(391)**	(93)
Decrease (increase) in amounts due from customers for contract work		**106**	(65)
(Increase) decrease in amounts due from associates		**(11)**	76
Increase in amounts due from jointly controlled entities		**(103)**	(24)
(Increase) decrease in amounts due from related companies		**(5)**	8
Increase in trade and other payables		**500**	754
Increase in amounts due to customers for contract work		**324**	100
(Decrease) increase in amounts due to jointly controlled entities		**(38)**	56
Increase (decrease) in amounts due to associates		**13**	(1)
(Decrease) increase in amounts due to related companies		**(14)**	17
Cash generated from operations		**3,185**	3,146
PRC enterprise income tax paid		**(628)**	(431)
Net cash generated from operating activities		**2,557**	2,715

	Notes	2011 RMB million	2010 RMB million
Investing activities			
Dividend received from jointly controlled entities		**234**	89
Dividend received from associates		**11**	8
Interest received		**46**	26
Deferred income received		**281**	259
Purchase of property, plant and equipment		**(2,650)**	(2,151)
Increase in prepaid lease payments		**(55)**	(184)
Deposits paid for investments		**(11)**	–
Deposit paid for acquisition of property, plant and equipment		**(62)**	–
Net cash outflow on acquisition of subsidiaries	47	**(354)**	(211)
Net cash inflow (outflow) on derecognition/deregistration of subsidiaries	49	**–**	(12)
Deposit received from disposal group		**42**	–
Proceeds from disposal of a jointly controlled entity		**20**	6
Investments in jointly controlled entities		**(248)**	(136)
Investments in associates		**(135)**	(138)
Acquisition of intangible assets		**–**	(40)
Proceeds from disposal of property, plant and equipment		**54**	4
Proceeds from disposal of prepaid lease payments		**–**	21
Increase in restricted bank deposits		**(2,669)**	(42)
Decrease in restricted bank deposits		**57**	93
Repayment of loan receivable		**–**	3
Amounts advanced to associates		**(30)**	(9)
Amounts repaid by associates		**1**	6
Amounts advanced to jointly controlled entities		**(384)**	(43)
Amounts repaid by jointly controlled entities		**224**	52
Amounts advanced to related companies		**(21)**	(43)
Amounts repaid by related companies		**–**	57
Net cash used in investing activities		**(5,649)**	(2,385)
Financing activities			
Interest paid		**(474)**	(345)
Net proceeds from shares issued on exercise of share options		**13**	–
Proceeds from issuance of short-term debentures		**1,298**	800
Repayment of short-term debentures		**(800)**	(800)
Repayment of guaranteed notes, including premium		**(1,389)**	–
Net proceeds from issue of corporate bond		**496**	–
Acquisition of additional interests in subsidiaries		**(2)**	(7)
Contribution from non-controlling shareholders		**58**	8
Dividends paid to non-controlling shareholders		**(230)**	(217)
Dividends paid to shareholders		**(297)**	(200)
New bank loans raised		**4,820**	2,278
Repayment of bank loans		**(4,820)**	(1,876)
Net proceeds from issue of senior notes		**4,765**	–
Amount advanced from associates		**72**	55
Amount repaid to associates		**(35)**	(61)
Amount advanced from jointly controlled entities		**511**	564
Amount repaid to jointly controlled entities		**(400)**	(394)
Amount advanced from related companies		**10**	6
Amount repaid to related companies		**–**	(3)
Net cash generated from (used in) financing activities		**3,596**	(192)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 RMB million	2010 RMB million
Net increase in cash and cash equivalents		**504**	138
Cash and cash equivalents at the beginning of the year		**2,851**	2,713
Cash and cash equivalents at the end of the year		**3,355**	2,851
Represented by:			
Cash and cash equivalents included in assets classified as held for sale		**6**	–
Cash and cash equivalents at the end of the year		**3,349**	2,851
		3,355	2,851

1. General Information

ENN Energy Holdings Limited (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 the same as the functional currency of the Company.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 58.

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 RMB576 million as at 31 December 2011. Having considered the secured credit facilities of approximately RMB5,594 million which remain 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 for the year ended 31 December 2011 have been prepared on a going concern basis.

In addition, the Directors have also considered the impact of the potential obligations under the pre-conditional general offer of the shares of China Gas Holdings Limited (the "Offer") made in the Company's announcement dated 12 December 2011 on the Group's financial position and are confident that the Group can obtain sufficient funding and banking facilities to finance the acquisition had the Offer been successfully made in 2012.

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 (the "HKICPA") that are mandatorily effective for the Group's financial year ended 31 December 2011.

The application of the new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]

[1] Effective for annual periods beginning on or after 1 July 2011.

[2] Effective for annual periods beginning on or after 1 January 2013.

[3] Effective for annual periods beginning on or after 1 January 2015.

[4] Effective for annual periods beginning on or after 1 January 2012.

[5] Effective for annual periods beginning on or after 1 July 2012.

[6] Effective for annual periods beginning on or after 1 January 2014.

The Directors anticipate that the application of the new and revised HKFRSs, other than set out below, will have no material impact on the consolidated financial statements.

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

HKFRS 9 financial instruments

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. The Directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the year ending 31 December 2015, and the application of the new standard may have an impact on the amounts reported in respect of the Group's available-for-sale investments which are currently stated at cost less impairment and will be measured at fair value upon adoption.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and HK (SIC)-Int 12 "Consolidation – Special Purpose Entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures" and HK (SIC)-Int 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting. HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the Directors have not yet performed a detailed analysis of the application of these standards and hence have yet quantified the extent of the impact.

HKFRS 13 fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial Instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may result in more extensive disclosures in the consolidated financial statements.

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

Amendments to HKAS 1 presentation of items of other comprehensive income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to HKAS 12 deferred tax – recovery of underlying assets

The amendments to HKAS 12 titled "Deferred Tax: Recovery of Underlying Assets" mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property". Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. If the presumption is not rebutted, the Directors anticipate that the application of the amendments to HKAS 12 may have material impact on deferred tax recognised for investment properties that are measured using the fair value model.

4. Significant Accounting Policies

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 (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

4. Significant Accounting Policies *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specific by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

4. Significant Accounting Policies *(continued)*

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit 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 acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, 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 basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating units, 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 is described below.

Interests in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are 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 an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

Where a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

4. Significant Accounting Policies *(continued)*

Interests in joint ventures

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

The Group reports its interests in jointly controlled entities using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities, less any impairment. 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. Additional losses are 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 a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Non-current assets held for sale

Non-current assets and 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 non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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 recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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.

4. Significant Accounting Policies *(continued)*

Revenue recognition *(continued)*

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

Dividend income from investments is recognised when the shareholders' right to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

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 recognised over a period no longer than the useful life of the relevant property, plant and equipment used to provide the ongoing service.

Gas connection contracts

Where 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.

Where 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 total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as 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 surplus is 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.

When a gas connection contract provides that the Group is committed to provide ongoing access to gas supply, 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.

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 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.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

4. Significant Accounting Policies *(continued)*

Leasing *(continued)*

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified 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, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis, except for those classified as investment properties and accounted for using the fair value model.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised 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 on monetary items are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily 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 are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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, and are charged as expenses when employees have rendered service entitling them to the contributions.

4. Significant Accounting Policies *(continued)*

Share-based payment arrangements

Share options granted by the Company to employees of the Group in an equity-settled share-based payment arrangement

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 options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognised in share options 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 options reserve will be transferred to retained earnings.

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 profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and 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 bases 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 deferred tax 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 differences 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.

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 rates (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.

Current and deferred tax for the year 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 current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4. Significant Accounting Policies *(continued)*

Property, plant and equipment

Property, plant and equipment included building and leasehold land (classified as finance lease) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost or deemed cost for properties transferred from investment properties, less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the costs of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production or supply of goods or services, or for administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the profit or loss in the period which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair value. 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 property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

For a transfer from investment property to property, plant and equipment, the investment property is measured at the fair value at the date of transfer. Gain or losses arising from changes in the fair value of investment property are recognised in the profit or loss for the period in which the investment property is transferred. The fair value of the investment property will be recognised as the deemed cost of the property for subsequent accounting in accordance with the accounting policy of property, plant and equipment as set out above.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation is recognised 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). The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

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 activities (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 that are acquired in a business combination are recognised separately from goodwill and are initially measured at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are carried at costs less accumulated amortisation and accumulated impairment losses, if any, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and 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 profit and loss in the period when the asset is derecognised.

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. Costs are determined using weighted average cost formula. Net realisable value represents the estimated selling price for inventories less all estimated costs to completion and the costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities 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.

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 and points 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 are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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 measured at amortised cost using the effective interest method, less any identified impairment (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 as or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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 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 each reporting period. Financial assets are considered to be impaired when 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 investment have been affected.

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.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a 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 and other receivables, assets that are assessed not to be impaired individually are, in addition, 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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's 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 (see the accounting policy below).

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, amounts due from associates, jointly controlled entities and related parties, where the carrying amount is reduced through the use of an allowance account. 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 against the allowance account. Changes in the carrying amount of the allowance accounts are recognised in 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 instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements 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.

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 (including all fees and points 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities and equity instruments

Financial liabilities

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 debentures, senior notes and guaranteed notes) are subsequently measured at amortised cost using the effective interest method.

Equity instruments

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

4. Significant Accounting Policies *(continued)*

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 is initially measured at its fair value and if not designated as at fair value through profit or loss, are subsequently measured at the higher of: (i) the amount of the obligation under the contract, as determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Derecognition

The Group derecognises a financial asset only when the rights to receive cash flows from the assets expire or, when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, 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 and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

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 underlying 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.

Depreciation of property, plant and equipment

The carrying value of property, plant and equipment at 31 December 2011 amounted to RMB13,073 million (2010: RMB10,800 million). 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 2011 amounted to RMB196 million (2010: RMB192 million). 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 2011, the carrying amount of trade and other receivables after deducting the impairment recognised is RMB804 million (2010: RMB723 million). Details of movement in impairment on trade and other receivables are set out in Note 25.

6. Capital 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 38, 39, 43, 44 and 45, net of cash on hand) 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:

	2011 RMB million	2010 RMB million
Bank and other loans	**4,240**	4,137
Short-term debentures	**1,300**	810
Corporate bond	**496**	–
Senior notes	**4,636**	–
Guaranteed notes	**–**	1,316
	10,672	6,263
Less: Cash and cash equivalents	**(3,349)**	(2,851)
Bank deposits to secure for pre-conditional cash offer of China Gas Holdings Limited (note)	**(2,520)**	–
Net debt	**4,803**	3,412
Total equity	**8,840**	7,540

	2011 %	2010 %
Net debt to total equity ratio	**54.3**	45.3

Note: Details of the pre-conditional cash offer are set out in Note 50(c). As the pre-conditional cash offer did not become unconditional at 31 December 2011 or up to the date of approval of the consolidated financial statements, the deposit as escrow for this cash offer was deducted from the total dabt for the purpose of computing the gearing ratio for the Group's capital risk management purpose.

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

b. Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities (including financial assets and liabilities that has been classified as held for sale) at the end of the reporting period are set out as follows:

	2011 RMB million	2010 RMB million
Financial assets		
Available-for-sale financial assets	**14**	14
Loans and receivables (including cash and cash equivalents)	**7,543**	3,919
Financial liabilities		
Amortised cost	**13,091**	8,464
Financial guarantee liability	**9**	6

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

c. Financial risk management objectives and policies

The Group's major financial instruments include loan receivable, trade and other receivables, available-for-sale financial assets, 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 debentures, corporate bond, senior notes, guaranteed notes and financial guarantee liability. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

Foreign currency risk management

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 monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2011 RMB million	2010 RMB million	**2011 RMB million**	2010 RMB million
Foreign currency:				
United States Dollar ("USD")	**2,691**	30	**5,529**	2,484
Hong Kong Dollar ("HKD")	**37**	23	**9**	11

The following table details the Group's sensitivity to a reasonably possible change in exchange rate of each foreign currency against RMB, 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**	
	2011 %	2010 %	**2011 %**	2010 %
Possible change in exchange rate	**5**	5	**5**	5

	2011 RMB million	2010 RMB million	**2011 RMB million**	2010 RMB million
(Decrease) increase in profit for the year:				
– if RMB weakens against foreign currencies	**(142)**	(123)	**1**	1
– if RMB strengthens against foreign currencies	**142**	123	**(1)**	(1)

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

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

Interest rate risk management

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 associates, jointly controlled entities and related companies, and fixed-rate bank and other loans, short-term debentures, corporate bond, senior notes and guaranteed notes (see Notes 26, 27, 28, 38, 39, 43, 44 and 45 for details of these amounts, loans, debentures, bond and notes respectively).

The fair value interest rate risk on bank balance and deposits is insignificant as the terms of the fixed deposits are relatively short.

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 38 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. The management of the Group has adjusted the sensitivity analysis from 27 basis points to 75 basis points due to the increased volatility of interest rate in 2011. The analysis is prepared assuming the amount of assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year and excluding the interest expected to be capitalised.

	2011 **RMB million**	2010 RMB million
Reasonably possible change in interest rate	**75 basis points**	27 basis points
(Decrease) increase in profit for the year		
– as a result of increase in interest rate	**(28)**	(9)
– as a result of decrease in interest rate	**28**	9

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

Credit risk management

As at 31 December 2011, 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 and financial guarantees provided by the Group 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 provided by the Group as disclosed in Note 40.

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, advances to associate, jointly controlled entity and related party at each half-year end date and at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In respect of the risk arising from the provision of financial guarantee, the management of the Group continuously monitors the credit quality and financial conditions of the guaranteed parties that the Group issued financial guarantee contracts in favour of to ensure that the Group will not suffer significant credit losses as a result of the failure of the guaranteed parties on the repayment of the relevant loans. 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 spreaded 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 2010 and 2011.

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

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

Liquidity risk management

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, capital expansion plans 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 the date of the approval of the consolidated financial statements, the Group has available unutilised credit facilities of approximately RMB5,594 million (2010: RMB3,655 million).

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 existed at the end of the reporting period.

	Weighted average effective interest rate	Repayable on demand or 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 million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
At 31 December 2011									
Trade and other payables		1,733	–	–	–	–	–	1,733	1,733
Amounts due to associates		118	–	–	–	–	–	118	118
Amounts due to jointly controlled entities		531	–	–	–	–	–	531	531
Amounts due to related-companies		37	–	–	–	–	–	37	37
Bank and other loans									
– fixed rate	6.20	410	–	–	–	–	–	410	396
– variable rate	5.50	1,896	974	338	372	344	602	4,526	3,844
Short-term debentures	6.09	1,374	–	–	–	–	–	1,374	1,300
Corporate bond	6.62	32	32	32	32	32	538	698	496
Senior notes	6.28	284	284	284	284	284	6,245	7,665	4,636
Financial guarantee contracts		95	–	–	–	–	–	95	9
		6,510	1,290	654	688	660	7,385	17,187	13,100
At 31 December 2010									
Trade and other payables	–	1,534	3	–	–	–	–	1,537	1,537
Amounts due to associates	–	69	–	–	–	–	–	69	69
Amounts due to jointly controlled entities	–	554	–	–	–	–	–	554	554
Amounts due to related companies	–	41	–	–	–	–	–	41	41
Bank and other loans									
– fixed rate	4.88	783	–	–	–	–	–	783	772
– variable rate	5.69	967	690	962	279	303	848	4,049	3,365
Short-term debentures	3.27	826	–	–	–	–	–	826	810
Guaranteed notes	7.37	98	1,383	–	–	–	–	1,481	1,316
Financial guarantee contracts	–	45	–	–	–	–	–	45	6
		4,917	2,076	962	279	303	848	9,385	8,470

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

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

Liquidity risk management (continued)

The amounts included above for financial guarantee contracts are the maximum exposure to the Group if that amount 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.

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

	2011		2010	
	RMB million	**Expiry period**	RMB million	Expiry period
Guarantees issued to banks to secure loan facilities granted to an associate and a jointly controlled entity	**95**	**2012–2013**	45	2012–2013

d. Fair value of financial instruments

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 at initial recognition 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.

Except as detailed in the following table, 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:

	2011		2010	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
Fixed-rate bank loans	**396**	**372**	772	683
Senior notes	**4,636**	**4,442**	–	–
Guaranteed notes	**–**	**–**	1,316	1,327
Short-term debentures	**1,300**	**1,288**	810	781
Corporate bond	**496**	**479**	–	–

7. Revenue

	2011 RMB million	2010 RMB million
Revenue comprises the following:		
Sales of goods		
Sales of piped gas	**7,980**	5,728
Vehicle gas refuelling stations	**1,620**	1,209
Wholesale of gas	**1,172**	905
Distributions of bottled liquefied petroleum gas ("LPG")	**192**	240
Sales of gas appliances	**97**	84
Sales of material	**592**	414
	11,653	8,580
Provision of service		
Gas connection fees	**3,415**	2,635
	15,068	11,215

8. Other Income

	2011 RMB million	2010 RMB million
Other income includes:		
Incentive subsidies (note a)	**46**	50
Bank interest income	**46**	26
Imputed interest on interest-free advances to related companies (Note 28)	**–**	1
Rental income from investment properties, net (note b)	**3**	3
Financial guarantee income	**5**	2

Notes:

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

b. The property rental income, net of outgoing expenses of RMB416,000 (2010: RMB424,000), earned by the Group from its investment properties, all of which is leased out under operating leases, amounted to RMB2,919,000 (2010: RMB2,731,000).

9. Other Gains and Losses

	2011 RMB million	2010 RMB million
Impairment loss (recognised) reversed on:		
– Property, plant and equipment (Note 16)	–	(15)
– Trade and other receivables, net (Note 25)	23	17
Gain (loss) on disposal of:		
– Property, plant and equipment	(5)	(20)
– Prepaid lease payments	–	20
– Jointly controlled entities (note a)	–	3
Gain on derecognition of subsidiary to jointly controlled entities (Note 49)	–	10
Loss on deregistration of subsidiaries (Note 49)	–	(1)
Increase in fair value of investment properties (Note 18)	8	3
Early redemption premium of guaranteed notes (Note 45)	(95)	–
Arrangement fee of a banking facility (note b)	(57)	–
Fair value adjustment on interest-free advances to related companies at initial recognition	(3)	–
Reversal of fair value adjustment on interest-free advances to related companies due to early settlement (Note 28)	–	4
Gain on foreign exchange, net (note c)	143	75
	14	96

Notes:

a. The balance for the year ended 31 December 2010 was arising from the disposal of 雲南新奧清潔能源有限公司 (Yunnan Xinao Clean Energy Company Limited).

b. The balance represented an arrangement fee payable to a financial institution for certain banking facilities granted to the Group which is not refundable regardless of the utilisation of such facilities by the Group.

c. Included in the balance for the year ended 31 December 2011 is an amount of approximately RMB138 million which is the exchange gain arising from the translation of senior notes denominated in USD to RMB.

10. Finance Costs

	2011 RMB million	2010 RMB million
Interest on:		
Bank and other loans wholly repayable within five years	155	76
Bank loans not wholly repayable within five years	105	143
Guaranteed notes	55	104
Short-term debentures	18	27
Senior notes	187	–
Corporate bond	29	–
	549	350
Less: Amount capitalised under construction in progress (note)	(89)	(39)
	460	311

Note: Borrowing costs capitalised during both year arose from funds borrowed specifically for the purpose of obtaining qualifying assets. In addition, during the year ended 31 December 2011, the borrowing cost capitalised arose from the pool of general borrowing calculated by applying a capitalisation rate of 5.74% per annum to expenditure on qualifying assets.

11. Profit Before Tax

	2011 RMB million	2010 RMB million
Profit before tax has been arrived at after (crediting) charging:		
Share-based payment expenses, including directors' emoluments (included in administrative expenses)	**46**	101
Other staff costs, including directors' emoluments	**1,272**	819
Less: Amount of other staff costs capitalised under construction in progress	**(56)**	(27)
	1,216	792
Depreciation and amortisation:		
Property, plant and equipment	**482**	409
Intangible assets	**37**	32
Total depreciation and amortisation (note)	**519**	441
Impairment loss on property, plant and equipment	**–**	15
Release of prepaid lease payments	**18**	14
Auditors' remuneration	**8**	8
Minimum lease payments under operating leases in respect of land and buildings recognised in profit or loss	**49**	40
Research and development expenses (included in administrative expenses)	**2**	11

Note: The amount of total depreciation and amortisation included in cost of sales and administrative expenses are as follows:

	2011 RMB million	2010 RMB million
Depreciation and amortisation included in:		
Cost of sales	**388**	345
Administrative expenses	**131**	96
	519	441

12. Remuneration of Directors and Employees

a. Directors' emoluments

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

Name of director	Fee RMB'000	Salaries and allowance RMB'000	Discretionary performance bonus RMB'000	Share-based payment RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
	2011					
Wang Yusuo	–	2,583	–	1,103	–	3,686
Zhao Jinfeng	–	596	–	3,252	–	3,848
Jin Yongsheng	199	–	–	551	–	750
Yu Jianchao	–	596	–	4,962	–	5,558
Cheung Yip Sang	–	1,834	493	5,375	48	7,750
Cheng Chak Ngok	–	1,490	–	620	10	2,120
Liang Zhiwei*	–	209	–	1,722	–	1,931
Zhai Xiaoqin*	–	209	–	1,722	–	1,931
Zhao Baoju	199	–	–	276	–	475
Wang Guangtian	199	–	–	276	–	475
Yien Yu Yu, Catherine	199	–	–	276	–	475
Kong Chung Kau	199	–	–	276	–	475
Zhao Shengli**	–	954	941	4,273	48	6,216
Wang Dongzhi**	–	447	–	3,377	–	3,824
	995	8,918	1,434	28,061	106	39,514

* In accordance with the articles of association of the Company, Mr. Liang Zhiwei and Ms. Zhai Xiaoqin, executive directors of the Company, retired from office as directors of the Company at the annual general meeting on 31 May 2011 and did not offer themselves for re-election.

** Mr. Zhao Shengli and Mr. Wang Dongzhi have been appointed as executive directors of the Company with effect from 25 March 2011.

Name of director	Fee RMB'000	Salaries and allowance RMB'000	Discretionary performance bonus RMB'000	Share-based payment RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
	2010					
Wang Yusuo	–	2,090	–	2,420	–	4,510
Chen Jiacheng*	–	310	–	–	38	348
Zhao Jinfeng	–	435	–	7,139	–	7,574
Jin Yongsheng	131	–	–	1,210	–	1,341
Yu Jianchao	–	435	–	10,891	–	11,326
Cheung Yip Sang	–	853	694	11,798	36	13,381
Cheng Chak Ngok	–	920	–	1,361	10	2,291
Liang Zhiwei	–	435	–	3,781	–	4,216
Zhai Xiaoqin	–	435	–	3,781	–	4,216
Zhao Baoju	131	–	–	605	–	736
Wang Guangtian	131	–	–	605	–	736
Yien Yu Yu, Catherine	131	–	–	605	–	736
Kong Chung Kau	131	–	–	605	–	736
	655	5,913	694	44,801	84	52,147

* Mr. Chen Jiacheng had resigned as an executive director of the Company with effect from 31 March 2010.

The amounts disclosed above include directors' fees of RMB597,000 (2010: RMB393,000) 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 of the Group in 2011 and 2010 were all directors of the Company and details of their emoluments are included in Note 12(a) above.

13. Income Tax Expense

	2011 RMB million	2010 RMB million
PRC Enterprise Income Tax:		
Current tax	**687**	491
Under provision in prior years	**–**	1
Withholding tax	**3**	15
	690	507
Deferred tax (Note 29)		
Current year	**(30)**	(97)
	660	410

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% 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% in 2007 is gradually transit to the new tax rate of 25% within 5 years after the enforcement of the current EIT Law from 1 January 2008 and the tax rate applicable for 2011 is 24% (2010: 22%).

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group 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 EIT Law, the PRC Enterprise Income Tax rates applicable to these subsidiaries range from 24% to 25% (2010: 22% to 25%) and the reduced tax rates for the relief period range from 12% to 12.5% (2010: 11% 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 in 2012.

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for the year.

13. Income Tax Expense *(continued)*

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

	2011 RMB million	2010 RMB million
Profit before tax	**2,327**	1,811
Tax at the PRC Enterprise Income Tax rate of 25%	**582**	453
Tax effects of share of results of associates	**(13)**	(1)
Tax effects of share of results of jointly controlled entities	**(79)**	(69)
Tax effects of income not taxable for tax purpose	**(6)**	(15)
Tax effects of expenses not deductible for tax purpose	**101**	75
Tax effects of tax losses not recognised	**129**	100
Utilisation of tax losses previously not recognised	**(24)**	(41)
Tax effects of deductible temporary differences not recognised	**18**	–
Tax concession and exemption granted to PRC subsidiaries	**(29)**	(16)
Effect of different tax rates of subsidiaries	**(41)**	(90)
Under provision in respect of prior years	**–**	1
Withholding tax on undistributed profit of PRC entities	**22**	13
Income tax charge for the year	**660**	410

14. Dividends

	2011 RMB million	2010 RMB million
Final dividend paid in respect of previous financial year	**248**	200
Special dividend paid in respect of 2010	**49**	–
	297	200

a. 2009 final dividend of HK$21.65 cents (equivalent to approximately RMB19.06 cents) per share or approximately RMB200 million in aggregate was paid during the year ended 31 December 2010.

b. 2010 final dividend of HK$28.35 cents (equivalent to approximately RMB24.12 cents) per share or approximately RMB248 million in aggregate was paid during the year ended 31 December 2011.

c. 2010 special dividend of HK$5.66 cents (equivalent to approximately RMB4.82 cents) per share or approximately RMB49 million in aggregate was paid during the year ended 31 December 2011.

d. The proposed final dividend in respect of 2011 of HK$36.23 cents (equivalent to approximately RMB29.37 cents) per share on 1,066,594,397 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:

	2011 **RMB million**	2010 RMB million
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**1,253**	1,013

	2011 **Number of shares**	2010 Number of shares
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,050,428,849**	1,050,149,397
Effect of dilutive potential ordinary shares arising from issue of share options by the Company	**11,370,212**	11,634,003
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,061,799,061**	1,061,783,400

16. Property, Plant and Equipment

	Land and buildings RMB million	Pipelines RMB million	Machinery and equipment RMB million	Motor vehicles RMB million	Office equipment RMB million	Construction in progress RMB million	Total RMB million
COST							
Balance at 1 January 2010	929	6,450	697	339	469	1,382	10,266
Acquisition of subsidiaries	18	20	8	7	–	47	100
Additions	37	22	47	56	57	1,970	2,189
Reclassification	136	1,155	42	3	81	(1,417)	–
Transfer from investment properties	22	–	–	–	–	–	22
Derecognition/deregistration of subsidiaries	(2)	(36)	(10)	(4)	(2)	(2)	(56)
Disposals	(36)	(44)	(22)	(12)	(6)	–	(120)
Balance at 31 December 2010	1,104	7,567	762	389	599	1,980	12,401
Acquisition of subsidiaries	17	112	2	7	1	40	179
Additions	31	190	92	57	150	2,219	2,739
Reclassification	100	1,436	28	–	73	(1,637)	–
Transfer from investment properties	5	–	–	–	–	–	5
Transfer to assets classified as held for sale	(13)	(104)	(1)	(9)	(2)	(3)	(132)
Disposal/deregistration of subsidiaries	(5)	–	(7)	–	–	–	(12)
Disposals	(35)	(6)	(25)	(22)	(8)	–	(96)
Balance at 31 December 2011	1,204	9,195	851	422	813	2,599	15,084
DEPRECIATION AND AMORTISATION/ IMPAIRMENT							
Balance at 1 January 2010	107	703	142	149	131	6	1,238
Provided for the year	33	231	33	52	60	–	409
Impairment loss recognised	–	15	–	–	–	–	15
Eliminated on derecognition/ deregistration of subsidiaries	(1)	(3)	(2)	(1)	–	–	(7)
Eliminated on disposals	(9)	(16)	(12)	(12)	(5)	–	(54)
Balance at 31 December 2010	130	930	161	188	186	6	1,601
Provided for the year	34	255	60	54	79	–	482
Transfer to assets classified as held for sale	(3)	(21)	(1)	(5)	(1)	–	(31)
Eliminated on disposal/deregistration of subsidiaries	–	–	(3)	(1)	–	–	(4)
Eliminated on disposals	(4)	(2)	(10)	(15)	(6)	–	(37)
Balance at 31 December 2011	157	1,162	207	221	258	6	2,011
CARRYING VALUES							
Balance at 31 December 2011	1,047	8,033	644	201	555	2,593	13,073
Balance at 31 December 2010	974	6,637	601	201	413	1,974	10,800

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

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

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 RMB46 million (2010: RMB47 million) which are located in Hong Kong under long lease, the remaining land and buildings are located in the PRC under medium-term lease.

At the end of the reporting period, the Group is in the process of obtaining the ownership certificates for its buildings in the PRC amounting to approximately RMB235 million (2010: RMB219 million). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the ownership certificates for its buildings in the PRC.

During the year ended 31 December 2010, the Director considered that the net realisable value of certain coal gas pipelines is immaterial and the cost for reuse outweighs the carrying values, therefore, full impairment loss of RMB15 million was recognised in profit or loss.

17. Prepaid Lease Payments

	2011 RMB million	2010 RMB million
The Group's prepaid lease payments comprise land in the PRC under medium-term lease	**712**	671
Analysed for reporting purposes as:		
Current portion	**17**	13
Non-current portion	**695**	658
	712	671

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 RMB50 million (2010: RMB66 million). 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 million
FAIR VALUE	
At 1 January 2010	73
Net increase in fair value recognised in profit or loss	3
Transfer to property, plant and equipment (Note 16)	(22)
At 31 December 2010	54
Net increase in fair value recognised in profit or loss	8
Transfer to property, plant and equipment (Note 16)	(5)
At 31 December 2011	57

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. These investment properties include land and buildings which comprise operating leases in respect of properties situated in the PRC under medium-term.

The fair value of the Group's investment properties at 31 December 2010 and 2011 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.

19. Goodwill

	2011 RMB million	2010 RMB million
COST		
At beginning of the year	**243**	222
Arising on:		
Acquisition of businesses (Note 47)	**4**	21
At end of the year	**247**	243
IMPAIRMENT		
At beginning and end of the year	**(51)**	(51)
CARRYING AMOUNTS		
At end of the year	**196**	192

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

19. Goodwill *(continued)*

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:

	2011 **RMB million**	2010 RMB million
Sale of piped gas business located in Lianyungang, the PRC	**18**	18
Sale of piped gas business located in Kaifeng, the PRC	**16**	16
Sale of piped gas business located in Hangzhou Xiaoshan, the PRC	**37**	37
Sale of piped gas business located in Guangdong, the PRC	**21**	21
Production and sale of liquefied natural gas ("LNG") (included under sale of piped gas segment)	**15**	15
Other CGUs	**89**	85
	196	192

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. The Directors estimate 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 1.5% to 26.5% (2010: 1.5% to 29.1%), and discount rate of 10% (2010: 10%). 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 million	Customer base RMB million	Total RMB million
COST			
At 1 January 2010	482	42	524
Addition	40	–	40
Arising on acquisition of subsidiaries (Note 47(b))	241	4	245
At 31 December 2010	763	46	809
Arising on acquisition of subsidiaries (Note 47(a))	382	4	386
At 31 December 2011	1,145	50	1,195
AMORTISATION			
At 1 January 2010	70	5	75
Charge for the year	30	2	32
At 31 December 2010	100	7	107
Charge for the year	35	2	37
At 31 December 2011	135	9	144
CARRYING VALUES			
At 31 December 2011	1,010	41	1,051
At 31 December 2010	663	39	702

Notes: Rights of operation and customer base are amortised on a straight-line method over the operation periods ranging from 8 to 50 years.

21. Interests in Associates

	2011 RMB million	2010 RMB million
Cost of investment in associates		
Listed	**44**	44
Unlisted	**592**	429
Share of post-acquisition profits net of dividend received	**38**	(2)
	674	471
Deemed capital contribution		
Financial guarantee	**9**	9
Fair value adjustments on interest-free advances	**11**	8
	20	17
	694	488
Market value of the listed equity interests in an associate	**14**	32

21. Interests in Associates *(continued)*

Included in the interests in associates is goodwill of approximately RMB110 million (2010: RMB75 million) arising on acquisitions of associates.

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate at 6.9% (2010: 5.4%) per annum and average terms of 2 years.

Details of the Group's principal associates as at 31 December 2010 and 31 December 2011 are as follows:

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group		Principal activities
			2011	2010	
上海新奧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 a)**	54.57% (note a)	Sales of LPG
新能能源有限公司 (Xinneng Energy Company Limited) ("Xinneng Energy")	Incorporated	The PRC	**15% (note b)**	15% (note b)	Design, construction, equipment installation and operation of a greenfield coal-to-methanol conversion plant

Notes:

a. 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 in this associate appointed by the seven joint ventures and it is therefore classified as an associate of the Group.

b. The Group holds 15% interest in Xinneng Energy and has the power to appoint two directors out of a total eleven directors in Xinneng Energy. Accordingly, the Directors consider that the Group exercises significant influence over this entity and it is therefore classified as associate of the Group.

c. The above table lists the associates of the Group which in the opinion of the Directors, principally affected the results or net assets of the Group. To give details of other associates of the Group would, in the opinion of the Directors, results in particulars of excessive length.

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

	2011 RMB million	2010 RMB million
Total assets	**5,226**	4,552
Total liabilities	**(3,320)**	(3,212)
Net assets	**1,906**	1,340
Group's share of net assets of associates	**564**	396
Goodwill on acquisition of associates	**110**	75
Deemed capital contribution		
– Financial guarantee	**9**	9
– Fair value adjustments on interest-free advances	**11**	8
	694	488
Revenue	**3,496**	1,783
Profit (loss) for the year	**221**	(102)

22. Interests in Jointly Controlled Entities

	2011 RMB million	2010 RMB million
Cost of unlisted investments	**1,048**	772
Shares of post-acquisition profits, net of dividends received	**669**	587
	1,717	1,359
Deemed capital contribution		
Financial guarantee	**9**	1
Fair value adjustments on interest-free advances	**7**	1
	16	2
	1,733	1,361

Included in the interests in jointly controlled entities is goodwill of approximately RMB160 million (2010: RMB94 million) arising on acquisitions of jointly controlled entities.

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate at 6.9% (2010: 5.4%) per annum and average terms of 2 years.

Details of the Group's principal jointly controlled entities as at 31 December 2010 and 2011 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 2011	2010	Principal activities
長沙新奧燃氣發展有限公司 (Changsha Xinao Gas Development Limited)	Incorporated	The PRC	**55% (note a)**	55% (note a)	Sales of piped 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 LPG
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
株州新奧燃氣發展有限公司 (Zhuzhou Xinao Gas Development Company Limited) ("Zhuzhou Xinao")	Incorporated	The PRC	**55% (note b)**	55% (note b)	Sales of piped gas

Notes:

a. 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.

b. The Group holds 55% of the registered capital of Zhuzhou Xinao and controls 55% of the voting power in general meeting. However, under the joint venture agreement, all financial and operational decisions must be approved by more than two-third of the directors of Zhuzhou Xinao, therefore, Zhuzhou Xinao is classified as a jointly controlled entity of the Group.

c. The above table lists the jointly controlled entities of the Group which in the opinion of the Directors, principally affected the results or net assets of the Group. To give details of other jointly controlled entities of the Group would, in the opinion of the Directors, results in particulars of excessive length.

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

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

	2011 **RMB million**	2010 RMB million
Current assets	**1,258**	1,086
Non-current assets	**1,926**	1,487
Current liabilities	**1,236**	1,055
Non-current liabilities	**240**	158
Income	**3,121**	2,394
Expenses	**2,805**	2,117

23. Available-for-Sale Financial Assets

	2011 **RMB million**	2010 RMB million
Unlisted equity securities, at cost less impairment	**14**	14

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 are of the opinion that their fair values cannot be measured reliably.

24. Loan Receivable

	2011 **RMB million**	2010 RMB million
Represented by:		
Current portion (included in trade and other receivables)	**6**	3
Non-current portion	**3**	6
	9	9

During the year ended 31 December 2008, the Group granted a loan amounting to RMB15 million 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 on equal 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. Trade And Other Receivables

	2011 RMB million	2010 RMB million
Trade receivables	**525**	526
Less: Impairment	**(62)**	(62)
	463	464
Other receivables (note a):		
Current portion	**353**	231
Non-current portion	**5**	72
	358	303
Less: Impairment	**(17)**	(44)
	341	259
Notes receivable (note b)	**318**	79
Advance to suppliers, deposits and prepayments	**720**	626
Total trade and other receivables	**1,842**	1,428

	2011 RMB million	2010 RMB million
Analysed for reporting purpose as:		
Current portion	**1,837**	1,356
Non-current portion	**5**	72
	1,842	1,428

Notes:

a. Included in other receivables as at 31 December 2010 were amounts due from affiliates of non-controlling shareholders of a subsidiary of approximately RMB67 million.

b. The notes receivable were endorsed for guarantee payments by PRC banks and the default risk is considered to be minimal.

25. Trade And Other Receivables *(continued)*

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, presented based on invoice date at the end of the reporting period:

	2011 RMB million	2010 RMB million
Within three months	**358**	378
4 to 6 months	**58**	50
7 to 9 months	**29**	16
10 to 12 months	**10**	13
More than one year	**8**	7
	463	464

The following is an aged analysis of notes receivable:

	2011 RMB million	2010 RMB million
Within three months	**228**	65
4 to 6 months	**90**	14
	318	79

Before accepting any new customer, the Group assesses 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 balances are debtors with aggregate carrying amount of approximately RMB408 million (2010: RMB455 million) 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 83 days (2010: 67 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.

25. Trade And Other Receivables *(continued)*

	2011 RMB million	2010 RMB million
Within one year	**397**	454
Over one year	**11**	1
Total	**408**	455

Movements in the impairment on trade receivables

	2011 RMB million	2010 RMB million
Balance at beginning of the year	**62**	76
Impairment losses recognised on receivables	**27**	38
Amounts recovered during the year	**(23)**	(50)
Amounts written off as uncollectible	**(4)**	(2)
Balance at end of the year	**62**	62

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

	2011 RMB million	2010 RMB million
Balance at beginning of the year	**44**	49
Impairment losses recognised on receivables	**–**	1
Amounts recovered during the year	**(27)**	(6)
Balance at end of the year	**17**	44

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 approximately RMB1 million had been made during the year ended 31 December 2010. No impairment loss was made during the year ended 31 December 2011.

The Directors are of the opinion that except for those other receivables that are impaired, the remaining other receivables are not impaired as the counterparties are either affiliates of non-controlling shareholders of a subsidiary or with satisfactory repayment history. Included in other receivables as of 31 December 2011 of approximately RMB45 million (2010: Nil) is secured by pledge of shares held by the debtor in an associate of the Group.

26. Amounts Due from/to Associates

	2011 RMB million	2010 RMB million
Amounts due from associates:		
Current portion	**31**	12
Non-current portion	**39**	21
	70	33
Amounts due to associates	**119**	69

Included in the amount due from/to associates are trade receivables amounting to approximately RMB20 million (2010: RMB8 million) and trade payables amounting to approximately RMB14 million (2010: RMB2 million) and the aged analysis presented based on the invoice date at the end of the reporting period is as follows:

	2011 RMB million	2010 RMB million
Trade receivables due from associates		
Within three months	**9**	3
4 to 6 months	**3**	1
7 to 9 months	**2**	1
10 to 12 months	**1**	–
More than one year	**5**	3
	20	8
Trade payables due to associates		
Within three months	**13**	2
4 to 6 months	**1**	–
	14	2

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, the above balances are not overdue.

The amounts due from/to associates are unsecured, interest-free and repayable on demand. The interest-free amounts due from associates that the Group expects to recover after one year from the end of the reporting period are stated at fair value calculated using an effective interest rate at 6.9% (2010: 5.4%) per annum. For the remaining amounts due from associates, the Directors expect 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 associates are not impaired as the counterparties are associates that are financially sound.

27. Amounts Due from/to Jointly Controlled Entities

	2011 RMB million	2010 RMB million
Amounts due from jointly controlled entities:		
Current portion	**404**	213
Non-current portion	**66**	–
	470	213
Amounts due to jointly controlled entities	**627**	554

Included in the amounts due from jointly controlled entities was approximately RMB56 million (2010: RMB19 million) arising from the deposits placed for purchases of gas by the Group from the jointly controlled entities which the Directors consider is not impaired. The balance approximates its fair value and is repayable on demand.

Included in the amounts due from/to jointly controlled entities are trade receivables amounting to approximately RMB217 million (2010: RMB95 million) and trade payables amounting to approximately RMB125 million (2010: RMB141 million) and the aged analysis presented based on invoice date is as follows:

	2011 RMB million	2010 RMB million
Trade receivables due from jointly controlled entities		
Within three months	**155**	58
4 to 6 months	**29**	13
7 to 9 months	**12**	10
10 to 12 months	**4**	2
More than one year	**17**	12
	217	95
Trade payables due to jointly controlled entities		
Within three months	**93**	122
4 to 6 months	**4**	13
7 to 9 months	**5**	3
10 to 12 months	**–**	–
More than one year	**23**	3
	125	141

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, the above balances are not overdue.

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

During the year ended 31 December 2010, the jointly controlled entities settled the interest-free advances earlier than the Group originally expected, accordingly a fair value adjustment with an amount of approximately RMB17 million was reversed and recorded as return of capital in the investment in these jointly controlled entities. 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 are stated at fair value calculated using an effective interest rate at 6.9% (2010: 5.4%) per annum. For the remaining amounts due from jointly controlled entities, the Directors expect 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.

28. Amounts Due From Related Companies

	2011			2010		
	Balance at 31.12.2011 RMB million	Balance at 1.1.2011 RMB million	Maximum amount outstanding during the year RMB million	Balance at 31.12.2010 RMB million	Balance at 1.1.2010 RMB million	Maximum amount outstanding during the year RMB million
Amounts due from non-controlling shareholders of subsidiaries with significant influence	**43**	**23**	**59**	23	25	34
Amounts due from companies controlled by a shareholder and director (note a)	**14**	**11**	**17**	11	26	30
	57	**34**		34	51	

Analysed for reporting purposes as:

	2011 RMB million	2010 RMB million
Current portion (note b)	**31**	13
Non-current portion (note c)	**26**	21
	57	34

Notes:

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

b. 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.

c. The non-current amounts due from related companies represent advances to non-controlling shareholders of certain subsidiaries of the Company. The amounts are unsecured, interest-free and will be settled through future distribution of dividend by the relevant subsidiaries to the non-controlling shareholders. The Directors consider that the balances will not be repayable within one year, therefore, they are classified as non-current assets. During the year ended 31 December 2010, unwinding of imputed interest of RMB670,000 and a fair value adjustment of RMB3,912,000 resulted from the related companies settled the interest-free advances earlier than the Group expected, has been included in profit or loss.

28. Amounts Due From Related Companies *(continued)*

Included in the amounts due from related companies are trade receivables amounting to RMB16 million (2010: RMB11 million) and the aged analysis presented based on invoice date at the end of the reporting period is as follows:

	2011 RMB million	2010 RMB million
Within three months	**8**	7
4 to 6 months	**2**	1
7 to 9 months	**1**	2
10 to 12 months	**2**	–
More than one year	**3**	1
	16	11

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, the above balances are not overdue.

For the amounts due from companies controlled by a shareholder and director, the counterparties are related companies that are financially sound and for the amounts due from non-controlling 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.

29. Deferred Taxation

	2011 RMB million	2010 RMB million
Deferred tax assets	**176**	131
Deferred tax liabilities	**(337)**	(225)
	(161)	(94)

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

	Valuation of properties RMB million	**Intangible assets** RMB million	**Capitalisation of interest in property, plant and equipment** RMB million	**Undistributed retained profit of PRC entities from 1 January 2008** RMB million (Note)	**Deferred income** RMB million	**Total** RMB million
At 1 January 2010	5	87	36	39	(36)	131
Acquisition of business (Note 47)	–	60	–	–	–	60
Reversal upon payment of withholding tax	–	–	–	(15)	–	(15)
(Credit) charge to profit or loss	–	(5)	8	13	(98)	(82)
At 31 December 2010	5	142	44	37	(134)	94
Acquisition of business (Note 47)	–	97	–	–	–	97
Reversal upon payment of withholding tax	–	–	–	(3)	–	(3)
(Credit) charge to profit or loss	–	(8)	21	22	(62)	(27)
At 31 December 2011	5	231	65	56	(196)	161

29. Deferred Taxation *(continued)*

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 amount of undistributed retained profit of certain PRC entities from 1 January 2008 attributable to non-PRC shareholders at a withholding tax rate of 5% or 10% as the Directors consider the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

Deferred taxation of approximately RMB289 million (2010: RMB190 million) has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of certain PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses of approximately RMB1,382 million (2010: RMB1,393 million) 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 be expired in the following year ending 31 December:

	2011 RMB million	2010 RMB million
2011	**–**	67
2012	**184**	202
2013	**342**	363
2014	**345**	362
2015	**382**	399
2016	**129**	–
	1,382	1,393

At the end of the reporting period, the Group has other deductible temporary differences of approximately RMB651 million (2010: RMB578 million), which are mainly arising from impairment of trade and other receivables and unrealised profits within the Group. No deferred tax asset has been recognised in relation to such other deductible temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilised.

30. Deposits Paid For Investments

The balance as at 31 December 2011 of RMB41 million represented the deposits paid for the investments in six projects in various provinces of the PRC which have not been completed at the end of the reporting period. The balance as at 31 December 2010 of RMB30 million represented the deposit paid for the investment in a company located in Baoding City, PRC which is engaged in the sales of LPG and piped gas. As at 31 December 2011, the acquisition was in the negotiation stage.

31. Restricted Bank Deposits

	2011 RMB million	2010 RMB million
Current portion	**2,675**	65
Non-current portion	**7**	5
	2,682	70
Bank deposits secured for:		
Bills facilities	**99**	18
Purchase contracts with suppliers	**56**	46
Rights of operations	**7**	6
Pre-conditional cash offer of shares of China Gas Holdings Limited	**2,520**	–
	2,682	70

The balance as at 31 December 2011 included the restricted bank deposits of RMB2,520 million which was made pursuant to an escrow agreement dated 1 December 2011 entered into between the Company, a financial institution and an escrow agent. According to the agreement, the Group has agreed to establish an escrow account and credited a sum of US$400 million (the "Escrow Amount") to secure the proposed pre-conditional cash offer of shares of China Gas Holdings Limited (the "Offer") made by the Group in its announcement dated 12 December 2011. The Escrow Amount will be released upon the completion of the Offer closes for acceptances.

As at 31 December 2011, the restricted bank deposits carry fixed interest rate range from 0.30% to 0.36% (2010: 0.36%) per annum. The restricted bank deposits will be released upon the settlement of relevant bill facilities and the expiry of purchase contracts or operation rights.

32. Inventories

	2011 RMB million	2010 RMB million
Construction materials	**142**	142
Gas appliances	**61**	44
Piped gas	**45**	34
Bottled LPG	**6**	3
Spare parts and consumable	**18**	26
	272	249

The cost of inventories recognised as an expense during the year was approximately RMB9,942 million (2010: RMB7,047 million).

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

	2011 RMB million	2010 RMB million
Contract costs incurred plus recognised profits	**879**	718
Less: Progress billings	**(1,667)**	(1,076)
	(788)	(358)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**201**	307
Amounts due to customers for contract work	**(989)**	(665)
	(788)	(358)

34. Cash and Cash Equivalents

Cash and cash equivalents include bank balances with original maturities less than three months carrying interest at market rates which range from 0.5% to 3.1% (2010: 0.36% to 2.25%) per annum as at 31 December 2011. The bank balances denominated in RMB are deposited with banks in the PRC.

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 RMB207 million (2010: RMB53 million), of which approximately RMB170 million (2010: RMB30 million) and approximately RMB37 million (2010: RMB23 million) are denominated in USD and HKD respectively.

35. Assets Classified As Held for Sale

The amount as of 31 December 2011 represented the assets and liabilities of the Group's 95% owned subsidiary, 北京新奥燃氣有限公司 (Beijing Xinao Gas Company Limited) and the Group's 80% owned subsidiary, 北京新奥京昌燃氣有限公司 (Beijing Xinao Jingchang Gas Company Limited), and the carrying amount of certain property, plant and equipment of 新奥燃氣發展有限公司 of which are stated at the lower of the carrying amount and fair value less costs to sell. Pursuant to various equity and assets transfer agreements between the Group and the buyer dated 1 December 2011, the Group agreed to sell the above-mentioned equity interests and property, plant and equipment at an aggregate consideration of RMB112 million, out of which RMB42 million was received during the year as a deposit for the transaction which was classified as liability associated with assets classified as held for sale at 31 December 2011. The remaining consideration will be settled upon completion of the transactions in 2012.

The major classes of assets and liabilities of the proposed disposal are as follows:

	At 31 December 2011 RMB million
Property, plant and equipment	**101**
Prepaid lease payments	**8**
Inventories	**4**
Trade and other receivables	**8**
Cash and cash equivalents	**6**
Total assets classified as held for sale	**127**
Trade and other payables (included deposit received of RMB42 million)	**76**
Total liabilities associated with assets classified as held for sale	**76**

36. Trade and Other Payables

	2011 RMB million	2010 RMB million
Trade payables	**1,437**	1,265
Advances received from customers	**2,050**	1,783
Accrued charges and other payables	**685**	526
	4,172	3,574

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2011 RMB million	2010 RMB million
Trade payables aged:		
Within three months	**1,060**	847
4 to 6 months	**191**	175
7 to 9 months	**34**	75
10 to 12 months	**13**	26
More than 1 year	**139**	142
	1,437	1,265

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

37. Amounts Due to Related Companies

	2011 RMB million	2010 RMB million
Amounts due to non-controlling shareholders of subsidiaries with significant influence	**30**	7
Amounts due to companies controlled by a shareholder and director (note)	**7**	24
Amount due to a shareholder	**–**	10
	37	41

Note: The related companies are controlled by Mr. Wang who is the shareholder and director of the Company.

37. Amounts Due to Related Companies *(continued)*

The amounts due to related companies of approximately RMB37 million (2010: RMB41 million) are unsecured, interest-free and repayable on demand.

Included in the amounts due to related companies are trade payables amounting to approximately RMB16 million (2010: RMB30 million) and the aged analysis presented based on invoice date at the end of the reporting period is as follows:

	2011 RMB million	2010 RMB million
Within three months	**9**	23
4 to 6 months	**3**	2
7 to 9 months	**–**	–
10 to 12 months	**–**	–
More than one year	**4**	5
	16	30

38. Bank and Other Loans

	2011 RMB million	2010 RMB million
Bank loans		
Secured	**1,585**	1,400
Unsecured	**2,528**	2,610
	4,113	4,010
Other loans		
Secured	**31**	31
Unsecured	**96**	96
	127	127
	4,240	4,137
The bank and other loans are repayable:		
Within one year	**1,913**	1,569
More than one year, but not exceeding two years	**853**	560
More than two years, but not exceeding five years	**840**	1,276
More than five years	**634**	732
	4,240	4,137
Less: Amounts due within one year shown under current liabilities	**(1,913)**	(1,569)
Amounts due after one year	**2,327**	2,568

All the bank and other loans are denominated in the functional currency of respective group entities except for approximately RMB803 million (2010: RMB1,159 million) and approximately RMB9 million (2010: RMB11 million) which are denominated in USD and HKD respectively.

The secured bank and other loans are secured by property, plant and equipment and rights to fee income of certain subsidiaries and jointly controlled entities as set out in Notes 52 and personal guarantee of Mr. Wang and his spouse as set out in Note 53.

38. Bank and Other Loans *(continued)*

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

At 31 December 2011

	Maturity date	Effective interest rate per annum	Carrying amount RMB million
Fixed-rate borrowings			
6.56%–8.8% unsecured RMB bank loan	12/4/2012–26/10/2012	6.56% – 8.8%	300
3.38%–5% unsecured RMB other loans	17/06/2012	3.38% – 5%	96
Total fixed-rate borrowings			396
Floating-rate borrowings			
Unsecured RMB bank loan at PBOC base rate	20/1/2012–27/7/2023	6.34%	1,425
Secured RMB bank loan at PBOC base rate	28/8/2012–29/11/2021	6.19%	1,576
Unsecured USD bank loan at London Inter Bank Offer Rate ("LIBOR") plus 2.2%	30/11/2012–30/11/2013	2.45%	803
Secured HKD bank loan at 2.37% below Prime Rate	11/7/2013–27/9/2022	2.37%	9
Secured RMB other loan at prevailing market rate	15/12/2014–12/6/2017	2.22%	31
Total floating-rate borrowings			3,844
Total borrowings			4,240

38. Bank and Other Loans *(continued)*

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

At 31 December 2010

	Maturity date	Effective interest rate per annum	Carrying amount RMB million
Fixed-rate borrowings			
4.78% unsecured RMB bank loan	10/1/2011–29/9/2011	4.83%	676
3.38%–5% unsecured RMB other loans	17/06/2011–17/06/2012	3.38% – 5%	96
Total fixed-rate borrowings			772
Floating-rate borrowings			
Unsecured RMB bank loan at PBOC base rate	1/3/2011–15/12/2020	5.4%	775
Secured RMB bank loan at PBOC base rate	31/7/2011–20/12/2020	5.6%	1,389
Unsecured USD bank loan at LIBOR plus 1.5%–2.2%	11/6/2011–30/11/2013	2.42%	1,159
Secured HKD bank loan at 2.5%–2.95% below Prime Rate	11/7/2013–27/9/2022	2.7%	11
Secured RMB other loan at prevailing market rate	15/12/2014–12/6/2017	2.23%	31
Total floating-rate borrowings			3,365
Total borrowings			4,137

39. Short-Term Debentures

Pursuant to the approval [2009] No. CP81 issued by National Association of Financial Market Institutional Investors ("NAFMII") dated 12 August 2009, NAFMII granted an approval to wholly-owned subsidiary of the Company, 新奧（中國）燃氣投資有限公司 (Xinao (China) Gas Investment Company Limited) ("Xinao (China)") to issue short-term debentures with a maximum limit of RMB1,600 million up to 12 August 2011. The balance as at 31 December 2010 represented the short-term debenture to third party with face value of RMB800 million. The short-term debentures were unsecured, carried interest at 3.27% per annum and were repaid on 5 August 2011.

Pursuant to the approval [2011] No. CP278 issued by NAFMII dated 6 December 2011, NAFMII granted an approval to Xinao (China) to issue short-term debentures with a maximum limit of RMB2,500 million up to 6 December 2013. The balance as at 31 December 2011 represented the short-term debentures to third party with face value of RMB1,300 million. The short-term debentures are unsecured, carry interest at 5.9% per annum and are repayable on 19 December 2012.

39. Short-Term Debentures *(continued)*

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

	2011 **RMB million**	2010 RMB million
Short-term debentures issued during the year and repayable within one year:		
Principal	**1,300**	800
Less: Issue costs	**(2)**	–
	1,298	800
Interest payable	**2**	10
	1,300	810

40. Financial Guarantee Liability

As at 31 December 2011, the Group had outstanding guarantees issued to banks to secure loan facilities granted to a jointly controlled entity and an associate to the extent of approximately RMB95 million (2010: RMB45 million) for loans with maturity from one to four years, 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 2011 is approximately RMB9 million (2010: RMB6 million).

41. Deferred Income

	Subsidies received from customers RMB million (note a)	**Connection fee received from customers** RMB million (note b)	**Total** RMB million
GROSS			
At 1 January 2010	20	287	307
Additions	–	259	259
At 31 December 2010 and 1 January 2011	20	546	566
Additions	16	265	281
At 31 December 2011	36	811	847
RECOGNITION			
At 1 January 2010	3	8	11
Release to profit or loss	3	21	24
At 31 December 2010 and 1 January 2011	6	29	35
Release to profit or loss	4	32	36
At 31 December 2011	10	61	71
CARRYING VALUES			
At 31 December 2011	26	750	776
At 31 December 2010	14	517	531

41. Deferred Income *(continued)*

	2011 RMB million	2010 RMB million
Analysed for reporting purposes as:		
Current liabilities	**44**	29
Non-current liabilities	**732**	502
	776	531

Notes:

a. The balance represented the subsidies received from the industrial customers to subsidise the construction cost of the main gas pipelines to the gas provision site and the gas storage. These 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 30 years. Accordingly, the Group has deferred the subsidies received and released to the profit or loss upon the completion of the assets over the shorter of the committed gas provision period and the useful lives of the related assets.

b. Since 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 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 are deferred and release to the profit or loss over the estimated useful lives of the assets constructed.

42. Share Capital

	2011 Number of shares	2010 Number of shares	**2011 HK$ million**	2010 HK$ million
Shares of HK$0.10 each				
Authorised:				
At beginning and end of the year	**3,000,000,000**	3,000,000,000	**300**	300
Issued and fully paid:				
At beginning of the year	**1,050,149,397**	1,050,149,397	**105**	105
Issue of shares on exercise of share options	**1,000,000**	–	**–**	–
At end of the year	**1,051,149,397**	1,050,149,397	**105**	105

	2011 RMB million	2010 RMB million
Presented in financial statements as:		
At beginning of the year	**110**	110
Issue of shares on exercise of share options	**–**	–
At end of the year	**110**	110

On 21 September 2011, 1,000,000 shares were issued at exercise price of HK$16.26 per ordinary share in relation to the exercise of outstanding share options. These shares rank pari passu with the then existing shares in all respects.

43. Corporate Bond

On 16 February 2011, pursuant to the approval [2011] No. 29 issued by National Development and Reform Commission ("NDRC"), NDRC approved Xinao (China) to issue a corporate bond of RMB500 million. The amount is unsecured and carries interest of 6.45% per annum and is repayable on 16 February 2018. The net proceeds, after deducting the issuance costs, amounted to RMB496 million.

According to the terms and conditions of the corporate bond, the Group may at its option to increase the coupon rate by 0% to 1% at the end of year five, that is 16 February 2016 by giving a 10-day notice to the bondholder before 16 February 2016. At the same time, the bondholder may at its option require the Company to redeem the bond at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bond will be subject to the increased interest rate until the maturity date. The put option is considered closely related to the host contract and is therefore not separately accounted for. The effective interest rate of the corporate bond is approximately 6.616% per annum after the adjustment for transaction costs.

44. Senior Notes

On 13 May 2011, the Company issued 6% senior notes with an aggregated nominal value of US$750 million (equivalent to approximately RMB4,863 million) (the "2021 Senior Notes") at face value. The net proceeds, after deducting the issuance costs, amounted to US$735 million (equivalent to RMB4,765 million). The 2021 Senior Notes matures on 13 May 2021. The 2021 Senior Notes are listed on the Singapore Exchange Securities Trading Limited.

According to the terms and conditions of the 2021 Senior 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 applicable premium and accrued and unpaid interest to such redemption date. The applicable premiums is the greater of (1) 1.0% of the principal amount and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount, plus all required remaining scheduled interest payments due on the 2021 Senior Notes through the maturity date (but excluding accrued and unpaid interest to redemption date), computed using a discount rate equal to the Treasury Rate plus 25 basis points, over (B) the principal amount on redemption date.

As the estimated fair value of the early redemption right is insignificant at initial recognition, the embedded derivative is not separately accounted for. The effective interest rate is approximately 6.2756% per annum after the adjustment for transaction costs.

The 2021 Senior Notes recognised in the consolidated statement of financial position are calculated as follows:

	At 31 December 2011 RMB million
Nominal value of 2021 Senior Notes	**4,863**
Issue costs	**(98)**
Fair value at date of issuance	**4,765**
Effective interest recognised	**196**
Interest paid/payable	**(187)**
Exchange gain	**(138)**
Carrying amount at 31 December 2011	**4,636**
Fair values of the 2021 Senior Notes*	**4,442**

* The fair values of the 2021 Senior Notes are determined directly by references to the price quotations published by the Singapore Exchange Securities Trading Limited on 30 December 2011.

45. Guaranteed Notes

	2011 **RMB million**	2010 RMB million
Guaranteed notes	–	1,316

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

On 28 June 2011 (the "Redemption Date"), the Company redeemed the entire outstanding 2012 Guaranteed Notes in full at a redemption price equal to 100% of the principal amount outstanding thereof which was US$200 million (equivalent to approximately RMB1,294 million), plus the applicable premium of US$15 million (equivalent to approximately RMB95 million) and accrued and unpaid interest of US$6 million (equivalent to approximately RMB38 million) as of the Redemption Date. The premium of approximately RMB95 million was expensed and included in "other gains and losses" in the consolidated statement of comprehensive income (Note 9).

46. Share Options

On 14 June 2010, the Company granted share options to directors and certain employees ("Grantees") to subscribe for a total of 33,490,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 21 May 2002, subject to acceptance by the Grantees.

Among the share options granted above, 14,810,000 share options were granted to the Directors to subscribe for a total of 14,810,000 shares in the Company and 18,680,000 share options were granted to certain employees of the Group to subscribe 18,680,000 shares in the Company.

During the year ended 31 December 2011, two employees who were the Grantees of the share options were appointed as Directors and two directors who were the Grantees of the share options retired from directorship. Accordingly, the share options granted to the directors and certain employees of the Company has changed to 17,860,000 and 14,630,000 share options, respectively as at 31 December 2011, after taking into consideration the share options exercised during the year.

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:

					Number of options ('000)			
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Outstanding at 31.12.2011
Tranche 1	14.6.2010	14.6.2010 to 13.12.2010	14.12.2010 to 13.6.2020	HK$16.26	16,745	–	(1,000)	15,745
Tranche 2	14.6.2010	14.6.2010 to 13.6.2012	14.6.2012 to 13.6.2020	HK$16.26	16,745	–	–	16,745
					33,490	–	(1,000)	32,490
Exercisable at the end of the year								15,745
Weighted average exercise price					HK$16.26	–	HK$16.26	HK$16.26

					Number of options ('000)			
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2010	Granted during the year	Exercised during the year	Outstanding at 31.12.2010
Tranche 1	14.6.2010	14.6.2010 to 13.12.2010	14.12.2010 to 13.6.2020	HK$16.26	–	16,745	–	16,745
Tranche 2	14.6.2010	14.6.2010 to 13.6.2012	14.6.2012 to 13.6.2020	HK$16.26	–	16,745	–	16,745
					–	33,490	–	33,490
Exercisable at the end of the year								16,745
Weighted average exercise price					–	HK$16.26	–	HK$16.26

46. Share Options *(continued)*

The closing price of the Group's shares immediately before 14 June 2010, the date of grant, was HK$16.22 per share.

Exercise price of the share options granted is HK$16.26 per share, which represents the highest of (i) the closing price of HK$16.26 per share as stated in the daily quotations sheet of the Stock Exchange on 14 June 2010, being the date of grant; (ii) the average closing price of HK$15.04 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the Date of Grant; and (iii) the nominal value of the share.

During the year, the Group recognised share-based expenses of RMB46 million (2010: RMB101 million). The total fair value of the options calculated by using the binomial model was HK$193 million.

The following assumptions were used to calculation the fair value of share options:

Spot price	HK$16.26
Exercise price	HK$16.26
Risk free rate	2.421%
Expected volatility	49.23%
Expected dividend yield	1.37%
Early exercise behaviour	150% of the Exercise Price

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At the end of each reporting date, the Group revises 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 the share option reserve.

47. Acquisition of Businesses

a. Acquisition during the year ended 31 December 2011

On 15 April 2011, the Group acquired 90% of the registered capital of 江蘇華海管道燃氣有限責任公司 ("Jiangsu Huahai") at a cash consideration of RMB33 million. Jiangsu Huahai is the holding company a group of companies engaging in the sales of piped gas in Jiangsu province.

On 21 October 2011, the Group acquired 60% of the registered capital of 廣州市番禺煤氣有限公司 ("Guangzhou Panyu'') at a cash consideration of RMB333 million. Guangzhou Panyu is engaged in sales of piped gas.

Jiangsu Huahai and Guangzhou Panyu were acquired with the objective of significantly improving marketing coverage in Jiangsu and Guangzhou and obtaining contribution arising from gas supply to industrial centre.

Consideration transferred

	Jiangsu Huahai RMB million	**Guangzhou Panyu** RMB million
Cash consideration paid	33	333

47. Acquisition of Businesses *(continued)*

a. Acquisition during the year ended 31 December 2011 *(continued)*

Consideration transferred (continued)

Acquisition-related costs amounting to RMB121,000 have been excluded from the cost of acquisition and have been recognised as administrative expenses in consolidated statement of comprehensive income in the current year.

The fair value of assets and liabilities of Jiangsu Huahai and the provisional values of the assets and liabilities of Guangzhou Panyu at the date of acquisition are as follows:

	Jiangsu Huahai RMB million	**Guangzhou Panyu** RMB million
Current assets		
Cash and cash equivalents	1	11
Trade and other receivables	1	50
Inventories	–	11
Non-current assets		
Property, plant and equipment	23	156
Intangible assets – rights of operation	27	355
Intangible assets – customer base	–	4
Interest in an associate	–	28
Prepaid lease payments	2	10
Current liabilities		
Trade and other payables	(17)	(55)
Bank loans – due within one year	–	(45)
Non-current liabilities		
Deferred tax liabilities	(7)	(90)
Bank loans – due after one year	–	(58)
	30	377

The fair value of intangible assets of Jiangsu Huahai is determined based on the valuation report issued by an independent professional valuer and the management reasonable estimation in investment evaluation due diligence. The value of assets and iabilities of Guangzhou Panyu are provisional and waiting for finalisation of the due diligence assessment by the management.

The fair value of the trade and other receivables amounted to approximately RMB51 million in aggregated which is estimated to be the same as the gross contractual amounts of these receivables. The Directors preliminarily considered that all acquired receivables will be recoverable.

Non-controlling interests

During the year, the Group has elected to measure non-controlling interests at the proportionate share of the acquirees' net identified assets at the respective acquisition date.

The non-controlling interest (10%) in Jiangsu Huahai and (40%) in Guangzhou Panyu recognised at the acquisition date was measured based on the proportionate share of the acquirees' net identifiable assets which amounted to approximately RMB1 million and approximately RMB44 million respectively.

47. Acquisition of Businesses *(continued)*

a. Acquisition during the year ended 31 December 2011 *(continued)*

Goodwill arising on acquisition

	Jiangsu Huahai RMB million	Guangzhou Panyu RMB million
Consideration transferred	33	333
Plus: Non-controlling interests	1	44
Less: Fair value of identified net assets acquired	(30)	(377)
Goodwill arising on acquisition	4	–

Goodwill arose on the acquisition of Jiangsu Huahai is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	Jiangsu Huahai RMB million	Guangzhou Panyu RMB million
Consideration paid in cash	(33)	(333)
Less: Cash and cash equivalent balances acquired	1	11
	(32)	(322)

Impact of acquisition on the results of the Group

Included in the revenue and profit for the year is approximately RMB2 million and RMB0.3 million respectively attributable to the additional business generated by Jiangsu Huahai. Included in the revenue and profit for the year is approximately RMB67 million and RMB2 million, respectively attributable to Guangzhou Panyu.

Had the acquisition of Jiangsu Huahai and Guangzhou Panyu been effected at 1 January 2011, the revenue of the Group for the year would have been approximately RMB15,250 million, and the profit for the year would have been approximately RMB1,683 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2011, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had Jiangsu Huahai and Guangzhou Panyu been acquired at the beginning of the current reporting period, the Directors have calculated depreciation and amortisation of property, plant and equipment and intangible asset acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

47. Acquisition of Businesses *(continued)*

b. Acquisition during the year ended 31 December 2010

On 11 February 2010, the Group acquired 100% of the registered capital of 廣州新奧燃氣有限公司 (formerly known as 廣州富都管道燃氣有限公司 ("Guangzhou Fudu")), at a total cash consideration of RMB268 million. Guangzhou Fudu is a group of companies engaging in the sales of piped gas in Huadu municipal, Guangdong.

On 25 March 2010, the Group acquired 80% of the registered capital of 盤錦遼濱盛泰燃氣有限公司 ("Panjin Shengtai") at a cash consideration of approximately RMB13 million. Panjin Shengtai is a group of companies engaging in the sales of piped gas.

Guangzhou Fudu and Panjin Shengtai were acquired by the Group with the objective to significantly improving market coverage in Guangdong and Liaoning respectively, and obtaining contribution arising from gas supply to industrial centre.

Acquisition-related costs amounting to RMB73,000 have been excluded from the cost of acquisition and have been recognised as administrative expenses in consolidated statement of comprehensive income for the year ended 31 December 2010.

The fair value of assets and liabilities recognised at the date of acquisition

	Guangzhou Fudu RMB million	Panjin Shengtai RMB million
Current assets		
Cash and cash equivalents	25	2
Trade and other receivables	55	2
Inventories	5	–
Non-current assets		
Property, plant and equipment	47	5
Intangible assets-rights of operation	228	13
Intangible assets-customer base	4	–
Prepaid lease payments	2	–
Current liabilities		
Trade and other payables	(52)	(5)
Bank and other loans	(10)	–
Non-current liabilities		
Deferred tax liabilities	(57)	(3)
	247	14

The fair value of intangible assets is determined based on the valuation report issued by an independent professional valuer and the management reasonable estimation in investment evaluation due diligence.

The trade and other receivables of approximately RMB57 million in aggregate acquired set out above included deposits and prepayments of RMB9 million. The fair value of the remaining trade and other receivables amounting to approximately RMB48 million in aggregate was estimated to be the same as the gross contractual amounts of these receivables. The Directors considered that all acquired receivables would be recoverable.

47. Acquisition of Businesses *(continued)*

b. Acquisition during the year ended 31 December 2010 *(continued)*

Goodwill arising on acquisition

	Guangzhou Fudu RMB million	Panjin Shengtai RMB million
Consideration transferred	268	13
Plus: non-controlling interests	–	1
Less: fair value of identified net assets acquired	(247)	(14)
Goodwill arising on acquisition	21	–

Non-controlling interests

The Group has elected to measure non-controlling interests at the share of the identifiable net assets of the acquirees at the respective acquisition date.

The non-controlling interest (20%) of Panjin Shengtai recognised at the acquisition date was measured based on the proportionate share of the recognised amounts of the acquirees' identifiable net assets was amounted to RMB892,000.

Goodwill arising on the acquisition of Guangzhou Fudu because the acquisition included the expected additional industrial customers resulting from the development of the Guangzhou Huadu Automobile Industry Zone within the area of operations of Guangzhou Fudu in the foreseeable future. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

None of the goodwill arising on this acquisition was expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	Guangzhou Fudu RMB million	Panjin Shengtai RMB million
Consideration paid in cash during the year ended 31 December 2010	(228)	(10)
Less: cash and cash equivalent balances acquired	25	2
	(203)	(8)

Impact of acquisition on the results of the Group

Guangzhou Fudu contributed to a revenue and a profit of approximately RMB140 million and RMB14 million, respectively to the Group for the period from the acquisition to 31 December 2010. Panjin Shengtai contributed to a revenue and a loss of approximately RMB0.6 million and RMB2 million, respectively to the Group for the period from the acquisition to 31 December 2010.

Had the acquisition of Guangzhou Fudu and Panjin Shengtai been effected at 1 January 2010, the revenue of the Group for the year ended 31 December 2010 would have been approximately RMB11,367 million, and the profit for the year would have been approximately RMB1,402 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2010, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had Guangzhou Fudu and Panjin Shengtai been acquired at the beginning of the current reporting period, the Directors have calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

48. Acquisition of Assets Through Acquistions of Subsidiaries

To facilitate with the Group's overall business strategy, the Group will from time to time liaise the local PRC government and potential vendor to acquire the existing gas connection and related assets. During the year ended 31 December 2010, the Group has acquired assets through the acquisitions of the following subsidiaries.

a. On 1 January 2010, the Group acquired 100% of the registered capital of 安徽施凱清潔能源有限公司 (Anhui Shikai Clean Energy Company Limited) ("Anhui Shikai") at a cash consideration of approximately RMB3 million. The Group has already paid the consideration in the previous year. Anhui Shikai was engaged in operations of vehicle gas refuelling station. After completion of the acquisition, Anhui Shikai has been deregistered and all the assets and liabilities of Anhui Shikai were transferred to 六安新奧燃氣有限公司. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the assets and liabilities acquired were as follows:

	RMB million
Net assets acquired:	
Property, plant and equipment	3
Total consideration satisfied by cash paid in previous year	3

b. On 29 January 2010, the Group acquired 80% of the registered capital of 山東七星液化石油氣有限責任公司 (Shandong Qixing Liquefied Petroleum Company Limited) ("Shandong Qixing") at a cash consideration of approximately RMB29 million, which was paid in previous year. At the time of the acquisition, Shandong Qixing which previously engaged in sales of LPG had ceased its operations. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the assets and liabilities acquired were as follows:

	RMB million
Net assets acquired:	
Property, plant and equipment	9
Prepaid lease payments	20
Cash and cash equivalents	5
Trade and other payables	(2)
	32
Non-controlling interests	(3)
Total consideration satisfied by cash paid in previous year	29

48. Acquisition of Assets Through Acquistions of Subsidiaries *(continued)*

c. On 29 January 2010, the Group acquired 72.8% of the registered capital of 江蘇大通管輸天然氣有限公司 (Jiangsu Datong Natural Gas Transmission Company Limited ("Jiangsu Datong") at a cash consideration of approximately USD9 million (approximately RMB65 million). At the time of the acquisition, Jiangsu Datong was still in development stage and was established for the purpose of the construction of gas pipelines. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the assets and liabilities acquired were as follows:

	RMB million
Net assets acquired:	
Property, plant and equipment	17
Trade and other receivables	4
Cash and cash equivalents	62
	83
Non-controlling interests	(18)
Total consideration satisfied by cash paid during the year ended 31 December 2010	65

d. On 30 March 2010, the Group acquired 94% of the registered capital of 惠州新鑫新能源有限公司 (Huizhou Xinxin Energy Company Limited") ("Huizhou Xinxin") at a cash consideration of RMB96 million. At the time of the acquisition, Huizhou Xinxin had not yet commenced operations and holds a land which can be used for construction of storage room for LPG. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the assets and liabilities acquired were as follows:

	RMB million
Net assets acquired:	
Prepaid lease payments	98
	98
Non-controlling interests	(2)
Total consideration satisfied by cash paid during the year ended 31 December 2010	96

e. On 7 April 2010, the Group acquired 85% of the registered capital of 懷化新奧燃氣有限公司 (Huaihua Xinao Gas Company Limited) ("Huaihua Xinao") at a cash consideration of approximately RMB32 million. Huaihua Xinao is engaged in gas pipeline infrastructure and sales of gas equipment and appliances. Huaihua Xinao had not yet commenced operation as at acquisition date. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the assets and liabilities acquired were as follows:

	RMB million
Net assets acquired:	
Property, plant and equipment	19
Intangible assets – rights of operation	16
	35
Non-controlling interests	(3)
Total consideration satisfied by cash paid during the year ended 31 December 2010	32

49. Derecognition/Deregistration/Disposal of Subsidiaries

a. On 31 March 2011, the Group entered into an equity transfer agreement with an independent third party (the "Seller") to acquire 40% of equity interest in 河北中石油昆侖天然氣利用有限公司 ("Hebei Kunlun") at a cash consideration of RMB76 million. At the same time, the Group agreed to transfer 100% of equity interest in a wholly owned subsidiary, 新奧鹿泉車用燃氣有限公司 ("Xinao Luquan") to the Seller, for a cash consideration of RMB8 million.

The net assets of Xinao Luquan derecognised at the date of disposal were as follows:

	RMB million
Current assets	
Cash and cash equivalents	14
Trade and other receivables	4
Non-current asset	
Property, plant and equipment	8
Current liabilities	
Trade and other payables	(6)
	20

The carrying amount of the net assets of Xinao Luquan derecognised approximates the fair value of the business of Xinao Luquan. The disposal of Xinao Luquan is considered to be an exchange of assets for the acquisition of 40% of equity interest in Hebei Kunlun, and accordingly, the cost of acquisition of Hebei Kunlun is calculated as follows:

	RMB million
Fair value of net assets of a subsidiary disposed of	20
Less: Proceeds from disposal (not yet received and included as other receivable at 31 December 2011)	(8)
	12
Cash consideration (out of which RMB50,000,000 are not yet paid and included in other payable at 31 December 2011)	76
Cost of acquisition of a jointly controlled entity	88

49. Derecognition/Deregistration/Disposal of Subsidiaries *(continued)*

a. *(continued)*

Net cash outflow arising on acquisition of a jointly controlled entity (included in investments in jointly controlled entities in the consolidated statement of cash flows)

	RMB million
Consideration paid	(26)
Cash and cash equivalent disposed of	(14)
	(40)

b. On 28 February 2010, a wholly owned subsidiary, 鄒平新奧燃氣有限公司 ("Zouping Xinao"), increased its registered capital of USD800,000 (approximately RMB5 million) at a total cash consideration of approximately RMB18 million by introduction of new joint venture partner 山東實華天然氣有限公司 (Shandong Shihua Natural Gas Company Limited ("Shandong Shihua") of which approximately RMB5.5 million and RMB12.5 million were recorded, respectively, as the increases in the registered capital and capital reserve of Zouping Xinao. Shandong Shihua engages in gas pipeline infrastructure and sales of gas of piped gas and is the supplier of Zouping Xinao.

According to the newly signed articles of association of Zouping Xinao, the Group and Shandong Shihua have joint control on the business of Zouping Xinao. In addition, the Group will own the entire undistributed profits of Zouping Xinao as at date of the establishment of joint control. Accordingly, the Group's interests in the assets and liabilities in Zouping Xinao were derecognised upon the joint control was established, of which the Group hold 60% of equity interest.

The net assets of Zouping Xinao derecognised at the date of establishment of joint control were as follows:

	RMB million
Net assets derecognised:	
Property, plant and equipment	40
Interest in an associate	8
Prepaid lease payments	2
Inventories	4
Trade and other receivables	1
Cash and cash equivalents	5
Trade and other payables	(39)
Tax payable	(1)
Net amount derecognised attributable to the equity owners of the Group before capital injection	20
Capital injection by Shandong Shihua	18
Net amount derecognised including capital injection by Shandong Shihua	38

49. Derecognition/Deregistration/Disposal of Subsidiaries *(continued)*

b. *(continued)*

The gain recognised in profit or loss on loss of control of Zouping Xinao was calculated as follows:

	RMB million
Fair value of the residual interests in Zouping Xinao recognised as investment cost of a jointly controlled entity	30
Capital injection by Shandong Shihua	18
	48
Less: Net assets derecognised	(38)
Gain on derecognition of a subsidiary on loss of control to jointly controlled entity	10

	RMB million
Cash outflow arising on derecognition:	
Cash and cash equivalents disposed of	(5)

The fair value of the residual interests of the Group in the Zouping Xinao was based on the Directors' valuation of the separate identifiable assets and liabilities and the Group's share in these assets after the dilution of interests resulting from the capital injection by Shandong Shihua.

The portion of that gain attributable to recognising the jointly controlled entity at fair value at the date when losing control is lost was approximately RMB7 million.

c. On 13 November 2010, a wholly owned subsidiary, 淄博新奧燃氣有限公司 ("Zibo Xinao"), increased its registered capital of approximately RMB3 million at a total cash consideration of approximately RMB3 million by introduction of Shandong Shihua into Zibo Xinao. Shandong Shihua is also a supplier of Zibo Xinao.

According to the newly signed articles of association of Zibo Xinao, the Group and Shandong Shihua have joint control on the business of Zibo Xinao. In addition, the Group will own the entire undistributed profits of Zibo Xinao as at date of the establishment of joint control. Accordingly, the Group's interests in the assets and liabilities in Zibo Xinao were derecognised upon the joint control was established, of which the Group hold 60% of equity interest.

The net assets of Zibo Xinao derecognised at the date of establishment of joint control were as follows:

	RMB million
Net assets disposed of:	
Property, plant and equipment	9
Trade and other receivables	4
Cash and cash equivalents	7
Trade and other payables	(16)
Net amount derecognised attributable to the equity owners of the Group before capital injection	4
Capital injection by Shandong Shihua	3
Net amount derecognised including capital injection by Shandong Shihua	7

49. Derecognition/Deregistration/Disposal of Subsidiaries *(continued)*

c. *(continued)*

The gain recognised in profit or loss on loss of control of Zibo Xinao was calculated as follows:

	RMB million
Fair value of the residual interests in Zibo Xinao recognised as investment cost of a jointly controlled entity	4
Capital injection by Shandong Shihua	3
	7
Less: Net assets derecognised	(7)
Gain on derecognition of a subsidiary on loss of control to jointly controlled entity	–

	RMB million
Cash outflow arising on derecognition:	
Cash and cash equivalents disposed of	(7)

The portion of that gain attributable to recognising the jointly controlled entity at fair value at the date when losing control was approximately RMB2 million.

d. During the year ended 31 December 2010, the Group deregistered the registered capital of its wholly owned subsidiaries, 洛陽市通奧管道燃氣器具有限公司, 福州新奧清潔能源有限公司 and 鎮江新奧車用燃氣發展有限公司. The loss on disposal entity from the deregistration of these subsidiaries amounting to approximately RMB1 million was recognised to profit or loss during the year ended 31 December 2010.

50. Commitments

a. Capital commitments

	2011 RMB million	2010 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**124**	86
Capital commitment in respect of investments in joint ventures	**57**	69

b. Other commitments

As at 31 December 2011, the Group has commitment amounting to approximately RMB32 million (2010: RMB 21 million) in respect of acquisition of land use rights in the PRC.

50. Commitments *(continued)*

c. Pre-conditional commitment

In the announcement dated 12 December 2011, China Petroleum & Chemical Corporation ("Sinopec") and the Company jointly announced the formation of a consortium and intend to, subject to the satisfaction of the pre-conditions as set out below, make a voluntary conditional cash offer (i) to acquire all of the outstanding shares in the issued share capital of China Gas Holdings Limited ("China Gas") (other than those shares in China Gas already held by Sinopec or the Company or other parties acting in concert with Sinopec or the Company) at cash consideration of HK$3.50 per share and (ii) to acquire and cancel all outstanding share options in China Gas at cash consideration HK$0.90 to HK$2.79 per option share.

The following pre-conditions are expected to be satisfied or waived (where applicable) on or before the Long Stop Date as defined in the offer announcement dated 12 December 2011 (and subsequently extended) (the "Long Stop Date") made by Sinopec and the Company:

i. with respect to both Sinopec and the Company, the joint submission by both of them to, and acceptance by Ministry of Commerce of the PRC ("MOFCOM"), under the Anti Monopoly Law of the PRC in respect of the transaction and the clearance or deemed clearance (through the expiration of the relevant statutory time periods for review by MOFCOM) by MOFCOM under the Anti Monopoly Law of the PRC of the transaction, on terms reasonably acceptable to the both Sinopec and the Company;

ii. with respect to the Company:

    (a) the grant of approval of the transaction (including the signing of the consortium agreement dated 12 December 2011 entered into between Sinopec and the Company) as a "very substantial acquisition" pursuant to the Listing Rules at the extraordinary general meeting of the Company;

    (b) the clearance of any necessary PRC national security review in connection with the transaction if required under applicable laws, on terms reasonably acceptable to the Company;

iii. with respect to Sinopec, the obtaining of approvals or authorisations of, the making of the necessary filings and registrations with, and notifications to, the National Development and Reform Commission of the PRC, MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council of the PRC and the State Administration of Foreign Exchange of the PRC, in each case, of the PRC in connection with the transaction, on terms reasonably acceptable to Sinopec;

iv. the obtaining of all other approvals necessary in connection with the transaction that are either to be submitted to the relevant authority(ties) by Sinopec and the Company jointly or separately, which may be required as a result of or in connection with or otherwise arising from any changes in applicable laws and regulations that come into effect after the date of the announcement, on terms reasonably acceptable to the Sinopec and the Company; and

v. that sufficient access to conduct due diligence on China Gas is given by China Gas to Sinopec and the Company for assessing whether the completion of the transaction would result in any event of default or other event giving the lenders of China Gas a right to accelerate the repayment of any obligations prior to the stated maturity date arising from any financing documentations to which any member of the China Gas is a party and no lender of China Gas indicating on or prior to the Long Stop Date that it will exercise such rights to accelerate repayment or claim an event of default.

Neither Sinopec nor the Company may waive the above pre-conditions except with respect to pre-condition v above. If the pre-conditions are not satisfied on or before the Long Stop Date and the Sinopec and the Company have not extended the Long Stop Date to a later date, the transaction will not be implemented.

As stated in the announcement dated 12 December 2011, with respect of the Company, assuming that all the outstanding options are exercised before the close of the Offer and the share offer is accepted in full, the financial resources required by the Company in order to satisfy its obligations in respect of full acceptance of the Offer amount to approximately HK$9,185 million (RMB7,446 million).

51. 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:

	2011 RMB million	2010 RMB million
Within one year	**27**	16
In the second to fifth year inclusive	**53**	41
Over five years	**56**	58
	136	115

Leases are negotiated for an average term of five 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 5.15% (2010: 5.0%) on an ongoing basis. All of the properties held have committed tenants for terms ranging from one to seven years.

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

	2011 RMB million	2010 RMB million
Within one year	**5**	5
In the second to fifth year inclusive	**9**	7
Over five years	**1**	1
	15	13

52. Pledge of Assets

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

	2011 RMB million	2010 RMB million
Carrying amount of:		
Property, plant and equipment	**94**	49
Restricted bank deposits	**162**	70

In addition to the above, the Group has also pledged its rights to receive gas connection and gas supply fee income of certain subsidiaries and jointly controlled entities in favour of banks to secure banking facilities amounting to RMB1,520 million (2010: RMB1,560 million) granted to the Group and RMB1,273 million (2010: RMB1,389 million) of which is utilised up to 31 December 2011.

53. Related Party Transactions

Apart from the related party balances as stated in Notes 25, 26, 27 and 37, the Group had the following transactions with certain related parties:

	2011 RMB million	2010 RMB million
Nature of transaction		
Associates:		
– Sales of gas to	16	7
– Sales of materials to	11	4
– Purchase of gas from	46	39
– Purchase of materials from	3	3
– Provision of gas transportation services to	1	8
– Provision of gas connection services to	1	–
Jointly controlled entities:		
– Sales of gas to	342	267
– Sales of materials to	136	102
– Purchase of gas from	319	244
– Provision of gas transportation services to	249	181
– Loan interest received from	1	–
– Payment made on behalf of the Group	2	2
– Provision of gas connection services to	42	36
– Provision of supporting services by	16	8

53. Related Party Transactions *(continued)*

	2011 RMB million	2010 RMB million
Nature of transaction		
Companies controlled by Mr. Wang:		
– Provision of gas supporting services by	2	–
– Sales of shares	20	–
– Sales of gas to	6	5
– Purchase of land from	–	33
– Purchase of property from	20	50
– Purchase of materials from	1	2
– Purchase of vehicles from	–	3
– Purchase of materials – dimethyl ether ("DME") from	–	10
– Provision of gas connection service to	2	–
– Provision of construction service by	2	29
– Provision of property management services by	6	5
– Lease of premises to	1	1
– Lease of premises from	3	3
– Provision of supporting services by	31	29
– Provision of maritime transportation services by	16	17
Non-controlling shareholders of subsidiaries with significant influence:		
– Provision of gas connection service to	8	2
– Purchase of land from	8	13
– Provision of construction service by	5	2
– Lease of premises from	2	1
– Lease of land from	–	1
– Provision of transportation services by	2	1
– Purchase of gas from	2	3
– Provision of supporting services by	3	–

In addition, Mr. Wang and Ms. Zhao Baoju, spouse of Mr. Wang has provided personal guarantees to the extent of RMB2,250 million (2010: RMB670 million) and non-controlling shareholders of a subsidiary with significant influence have provided their personal guarantees to the extent of RMB216 million (2010: Nil) to certain banks for banking facilities granted to the Group as at 31 December 2011.

A 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 million (2010: RMB100 million) granted to the Group and RMB95 million (2010: RMB100 million) of which is utilised up to 31 December 2011.

Compensation of key management personnel

The remuneration of directors who are also the members of key management personnel during the year was disclosed in Note 12.

54. Segment Information

Information reported to the chief operating decision maker, the Company's Chief Executive Officer (the "CEO") for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services. Specifically, the Group's operating and reportable segment under HKFRS 8 are gas connection, sales of piped gas, vehicle refuelling stations, wholesale of gas, distributions of bottled LPG, sales of gas appliances and sales of material. Segment profit reviewed by CEO represents the gross profit earned by each segment. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 4.

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

2011

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Distribution of bottled LPG RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Revenue from external customers	**3,415**	**7,980**	**1,620**	**1,172**	**192**	**97**	**592**	**15,068**
Segment profit before depreciation and amortisation	**2,254**	**1,504**	**339**	**116**	**17**	**25**	**35**	**4,290**
Depreciation and amortisation	**(127)**	**(217)**	**(28)**	**(10)**	**(4)**	**(2)**	**–**	**(388)**
Segment profit	**2,127**	**1,287**	**311**	**106**	**13**	**23**	**35**	**3,902**

2010

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Distribution of bottled LPG RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Revenue from external customers	2,635	5,728	1,209	905	240	84	414	11,215
Segment profit before depreciation and amortisation	1,667	1,276	233	113	12	22	34	3,357
Depreciation and amortisation	(81)	(224)	(22)	(12)	(4)	(2)	–	(345)
Segment profit	1,586	1,052	211	101	8	20	34	3,012

54. Segment Information *(continued)*

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

2011

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Distribution of bottled LPG RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Assets:								
Segment assets	**2,857**	**10,484**	**596**	**279**	**105**	**195**	**161**	**14,677**
Interests in associates								**694**
Interests in jointly controlled entities								**1,733**
Unallocated corporate assets								**9,784**
Consolidated total assets								**26,888**
Liabilities:								
Segment liabilities	**3,959**	**1,330**	**99**	**78**	**14**	**70**	**200**	**5,750**
Bank and other loans								**4,240**
Short-term debentures								**1,300**
Corporate bond								**496**
Senior notes								**4,636**
Unallocated corporate liabilities								**1,626**
Consolidated total liabilities								**18,048**

2010

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Distribution of bottled LPG RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Assets:								
Segment assets	2,281	8,851	485	192	102	144	84	12,139
Interests in associates								488
Interests in jointly controlled entities								1,361
Unallocated corporate assets								5,652
Consolidated total assets								19,640
Liabilities:								
Segment liabilities	3,261	879	93	101	13	78	164	4,589
Bank and other loans								4,137
Short-term debentures								810
Guaranteed notes								1,316
Unallocated corporate liabilities								1,248
Consolidated total liabilities								12,100

54. Segment Information *(continued)*

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, prepaid lease payments, investment properties, other receivable, interests in associates, interests in jointly controlled entities, deferred tax assets and available-for-sale financial assets; and
- all liabilities are allocated to reportable segments other than unallocated corporate liabilities, mainly include other payable, taxation payable, bank and other loans, short-term debentures, corporate bond, senior notes, guaranteed notes, financial guarantee liability and deferred taxation.

For the purposes of presenting segment revenue, results, 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 million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Distribution of bottled LPG RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Amounts included in the measure of segment profit or loss or segment assets:								
2011								
Additions to non-current assets (note b)	**267**	**2,356**	**217**	**11**	**–**	**42**	**3**	**2,896**
Depreciation and amortisation	**127**	**217**	**28**	**10**	**4**	**2**	**–**	**388**
2010								
Additions to non-current assets (note b)	201	2,045	190	17	19	1	1	2,474
Depreciation and amortisation	81	224	22	12	4	2	-	345

	Additions to non-current assets (note b)		Depreciation and amortisation	
	2011 RMB million	2010 RMB million	**2011 RMB million**	2010 RMB million
Segment total	**2,896**	2,474	**388**	345
Adjustments (note a)	**483**	353	**131**	96
Total	**3,379**	2,827	**519**	441

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 substantially all 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 total revenue of the Group.

55. Retirement Benefits Scheme

	2011 RMB million	2010 RMB million
Retirement benefit contribution made during the year	**87**	39

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

56. Event after the Reporting Period

On 9 February 2012, the Company early repaid its outstanding unsecured USD bank loan under a term loan facility agreement dated 9 November 2009 of US$128 million (equivalent to RMB803 million), plus the accrued interest of US$0.9 million (equivalent to RMB5 million).

57. Statement of Financial Position of the Company

	2011 RMB million	2010 RMB million
Non-current Assets		
Interests in subsidiaries	**1,891**	1,888
Investment in an associate	**44**	44
	1,935	1,932
Current Assets		
Other receivables	**1**	–
Amounts due from subsidiaries	**1,838**	1,847
Restricted bank deposits	**2,520**	–
Cash and cash equivalents	**40**	35
	4,399	1,882
Current Liabilities		
Other payables and accrued expenses	**96**	39
Amounts due to subsidiaries	**51**	51
Bank loans – due after one year	**236**	215
	383	305
Net Current Assets	**4,016**	1,577
Total Assets less Current Liabilities	**5,951**	3,509

57. Statement of Financial Position of the Company *(continued)*

	2011 RMB million	2010 RMB million
Capital and Reserves		
Share capital	**110**	110
Reserves	**638**	1,139
Total Equity	**748**	1,249
Non-current Liabilities		
Bank loans – due after one year	**567**	944
Senior notes	**4,636**	–
Guaranteed notes	**–**	1,316
	5,203	2,260
	5,951	3,509

58. 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 2011	2010	Principal activities
ENN Gas Investment Group Limited (“ENN”)	British Virgin Island	US$1,000	**100.00%**	100.00%	Investment holding
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
長沙新奧燃氣有限公司 Changsha Xinao Gas Company Limited* (“Changsha Xinao”)	PRC	RMB120,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure and sales of piped gas
常州新奧燃氣發展有限公司 Changzhou Xinao Gas Development Company Limited*	PRC	US$600,000	**60.00%**	60.00%	Sales of piped gas
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

58. 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 2011	2010	Principal activities
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
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 appliances
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
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
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
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
石家莊新奧燃氣有限公司 Shijiazhuang Xinao Gas Company Limited*	PRC	RMB300,000,000	**65.00%**	65.00%	Investment in gas pipeline infrastructure and sales of piped gas
新奧能源物流有限公司 Xinao Energy Logistics Company Limited#	PRC	US$12,400,000	**100.00%**	100.00%	Transportation of oil products and gas
新奧能源貿易有限公司 Xinao Energy Sales Company Limited#	PRC	US$28,200,000	**100.00%**	100.00%	Wholesale and retail of LNG and CNG, piped gas facilities, gas equipment, appliances and others
新奧財務有限責任公司 Xinao Finance Company Limited	PRC	RMB500,000,000	**97.00%**	–	Provision of financial services

58. 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 2011	2010	Principal activities
新奧燃氣發展有限公司 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
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)#	PRC	US$231,778,124	**100.00%**	100.00%	Investment holding
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 appliances
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

All of the above subsidiaries, except for ENN and Xinao (China), are indirectly held by the Company.

All of the above subsidiaries operate principally in their respective place of incorporation/establishment, except for ENN, 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 as at 31 December 2011 or at any time during the year except for Xinao (China) which has issued short-term debentures to third party debenture holders with face value of RMB1,300 million, in which the Group has no interest.

* Sino-foreign equity joint venture

\# Wholly foreign owned enterprise

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