

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 1. GENERAL

The Company is an exempt company incorporated in the Cayman Islands under the Companies Law and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

### Basis of consolidation

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

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

### Goodwill

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

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

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

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

### Negative goodwill

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Negative goodwill (continued)

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

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

#### Revenue recognition

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

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

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

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

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

#### Property, plant and equipment

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

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

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

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Construction in progress**

Construction in progress represents assets under construction and is stated at cost. Cost comprises directly attributable costs of acquisition or construction which include capitalised borrowing costs. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

**Exclusive rights of operation**

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

**Investments in subsidiaries**

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

**Interests in associates**

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

**Jointly controlled entities**

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

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

**Investments in securities**

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

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

**Borrowing costs**

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

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

**Impairment**

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Inventories

Inventories, including construction materials, gas appliances and gas for sales, consumables and spare parts, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value is based on estimated selling prices in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sale.

#### Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the balance sheet date can be measured reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

#### Convertible bonds

Convertible bonds are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis and charged to the income statement using effective interest method over the period of the bond and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

#### Research and development costs

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

Expenditure on development is charged to the income statement in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

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

#### Government grants

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

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

#### Taxation

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

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

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

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Operating leases

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

#### Foreign currencies

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

#### Retirement benefit scheme contribution

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

### 4. TURNOVER

	2004 RMB'000	2003 RMB'000
Turnover comprises the following:		
Gas connection fees	822,697	516,468
Sales of piped gas	429,779	185,720
Distributions of bottled liquefied petroleum gas	149,185	161,402
Sales of gas appliances	38,284	14,465
	<b>1,439,945</b>	<b>878,055</b>

### 5. OTHER OPERATING INCOME

	2004 RMB'000	2003 RMB'000
Other operating income comprises the following:		
Compensation received (note a)	16,702	8,000
Incentive subsidies (note b)	8,350	7,356
Interest income	1,298	3,093
Income from rented premises under operating leases	3,177	2,011
Repairs and maintenance income	1,858	1,267
Management fee income	264	264
Pipeline transmission income	1,440	1,168
Release of negative goodwill	251	226
Gain on disposal of a subsidiary	–	718
Miscellaneous sales	7,120	14
Others	7,136	6,617
	<b>47,596</b>	<b>30,734</b>

## 5. OTHER OPERATING INCOME (continued)

Notes:

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

In 2003, under a memorandum signed between the joint venture partners of 蚌埠新奧燃氣有限公司 (“Bengbu Xiniao”), a subsidiary of the Company, Bengbu Xiniao is entitled to receive compensation from the PRC minority shareholder for the operating loss incurred in running the liquefied petroleum gas business due to the delay in obtaining the approval of the increment in selling price from the local government authority. During the year ended 31 December 2003, compensation amounting to RMB8,000,000 was received from the PRC minority shareholder.

- (b) Included in incentive subsidies is a refund of part of the income tax and value added tax paid from the relevant PRC government authorities as an incentive for the investments in various cities in the PRC, amounting to RMB6,538,000 (2003: RMB4,585,000). The application was approved by the relevant government authorities. The remaining represented refunds of various taxes as incentives by the government authorities in various cities of the PRC. All incentives were recorded in the year when the approval was obtained.

## 6. PROFIT FROM OPERATIONS

	2004 RMB'000	2003 RMB'000
Profit from operations has been arrived at after charging:		
Amortisation of intangible assets included in other operating expenses	4,903	3,706
Auditors' remuneration	2,879	2,317
Depreciation and amortisation of property, plant and equipment	77,434	52,371
Loss on disposal of property, plant and equipment	1,105	3,097
Minimum lease payments under operating leases in respect of land and buildings	6,442	3,769
Allowance for bad and doubtful debts	1,221	918
Allowance for inventories	6,740	1,260
Research and development expenses	4,163	2,889
Staff costs	155,896	87,506
Less: Amount capitalised under construction in progress	(21,066)	(5,427)
	134,830	82,079

## 7. REMUNERATION OF DIRECTORS AND EMPLOYEES

### (a) Directors' emoluments

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

Name of Directors	2004				2003			
	Fee RMB'000	Basic salaries and allowance RMB'000	Retirement benefits scheme contributions RMB'000	Total emoluments RMB'000	Fee RMB'000	Basic salaries and allowance RMB'000	Retirement benefits scheme contributions RMB'000	Total emoluments RMB'000
Wang Yusuo	-	1,378	-	1,378	-	1,378	-	1,378
Yang Yu	-	848	-	848	-	848	-	848
Chen Jiacheng	-	94	19	113	-	53	2	55
Zhao Jinfeng	-	424	19	443	-	424	6	430
Qiao Limin	-	424	-	424	-	424	-	424
Jin Yongsheng	-	530	19	549	-	530	6	536
Yu Jianchao	-	424	-	424	-	424	-	424
Cheung Yip Sang	-	424	19	443	-	424	1	425
Cheng Chak Ngok	-	551	13	564	-	551	13	564
Zhao Baoju	64	-	-	64	62	-	-	62
Wang Guangtian	64	-	-	64	51	-	-	51
Xu Liang	64	-	-	64	128	-	-	128
Yien Yu Yu, Catherine	32	-	-	32	-	-	-	-
	224	5,097	89	5,410	241	5,056	28	5,325

The amounts disclosed above include directors' fees of RMB160,000 (2003: RMB179,000) payable to independent non-executive directors. None of the directors waived any emoluments during the year.

### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, four (2003: four) were directors of the Company whose emoluments are disclosed in note (a) above. The emoluments of the remaining one (2003: one) are as follows:

	2004 RMB'000	2003 RMB'000
Salaries and other benefits	434	434
Retirement benefits scheme contributions	13	13
	447	447

## 8. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on:		
Bank and other loans wholly repayable within five years	40,245	24,034
Bank loans not wholly repayable within five years	8,666	–
Convertible bonds	1,307	–
	50,218	24,034
Less: Amount capitalised	(8,666)	–
	41,552	24,034
Bank charges	–	6,961
	41,552	30,995

## 9. INCOME TAX EXPENSES

	2004 RMB'000	2003 RMB'000
Current tax	8,510	4,633
Under (over) provision in prior years	686	(1,676)
	9,196	2,957

The charge represents PRC enterprise income tax for the year.

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

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



## 9. INCOME TAX EXPENSES (continued)

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

	2004 RMB'000	2003 RMB'000
Profit before taxation	314,718	199,242
Tax at the domestic income tax rate of 33%	103,857	65,750
Tax effect of expenses not deductible for tax purpose	21,314	25,707
Tax effect of income not taxable for tax purpose	(6,122)	(6,312)
Tax effect of tax losses not recognised	16,125	10,477
Utilisation of tax losses previously not recognised	(640)	(209)
Under (over) provision in respect of prior year	686	(1,676)
Effect of tax concession granted to PRC subsidiaries	(111,543)	(82,018)
Effect of different tax rates of subsidiaries	(14,481)	(8,762)
Tax charge for the year	9,196	2,957

## 10. DIVIDEND

	2004 RMB'000	2003 RMB'000
Final, proposed of HKD2.71 cents (equivalent to approximately RMB2.87 cents) per share (2003: Nil)	25,254	–

The final dividend of HKD2.71 cents (equivalent to approximately RMB2.87 cents) per share on 879,125,000 shares has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 11. EARNINGS PER SHARE

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

	2004 RMB'000	2003 RMB'000
Earnings for the purposes of basic earnings per share	252,257	183,090
Effect of dilutive potential ordinary shares: Interest on convertible bonds	1,307	–
Earnings for the purposes of diluted earnings per share	253,564	183,090

	2004 Number of shares	2003 Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	848,096,000	737,000,000
Effect of dilutive potential ordinary shares: Share options	10,961,000	8,075,000
Convertible bonds	12,989,000	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	872,046,000	745,075,000

## 12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>THE GROUP</b>							
COST/VALUATION							
At 1 January 2004	445,301	1,043,182	98,064	60,331	23,592	444,862	2,115,332
Acquisition of subsidiaries	2,505	8,864	66	268	–	3,508	15,211
Additions	40,622	56,208	34,313	19,903	10,298	788,847	950,191
Reclassification	80,783	390,228	15,297	432	4,765	(491,505)	–
Disposals	(195)	(273)	(2,703)	(5,172)	(408)	–	(8,751)
Surplus on valuation	10,263	–	–	–	–	–	10,263
<b>At 31 December 2004</b>	<b>579,279</b>	<b>1,498,209</b>	<b>145,037</b>	<b>75,762</b>	<b>38,247</b>	<b>745,712</b>	<b>3,082,246</b>
Comprising:							
At cost	–	1,498,209	145,037	75,762	38,247	745,712	2,502,967
At valuation	579,279	–	–	–	–	–	579,279
	579,279	1,498,209	145,037	75,762	38,247	745,712	3,082,246
DEPRECIATION AND AMORTISATION							
At 1 January 2004	–	56,071	9,075	15,954	4,617	–	85,717
Provided for the year	16,197	37,486	9,257	10,941	3,553	–	77,434
Eliminated on disposals	–	(65)	(1,678)	(4,383)	(176)	–	(6,302)
Eliminated on valuation	(16,197)	–	–	–	–	–	(16,197)
<b>At 31 December 2004</b>	<b>–</b>	<b>93,492</b>	<b>16,654</b>	<b>22,512</b>	<b>7,994</b>	<b>–</b>	<b>140,652</b>
NET BOOK VALUES							
<b>At 31 December 2004</b>	<b>579,279</b>	<b>1,404,717</b>	<b>128,383</b>	<b>53,250</b>	<b>30,253</b>	<b>745,712</b>	<b>2,941,594</b>
At 31 December 2003	445,301	987,111	88,989	44,377	18,975	444,862	2,029,615

The net book values of properties shown above comprises:

	2004 RMB'000	2003 RMB'000
Land and buildings in Hong Kong under long leases	31,000	22,800
Land and buildings in PRC under medium term land use rights	548,279	422,501
	579,279	445,301

At the balance sheet date, the Group is in the process of obtaining land use right certificates for its land and buildings in PRC amounting to approximately RMB86,678,000 (2003: RMB145,122,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the land use right certificates for its land and buildings in the PRC.

## 12. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group revalued its land and buildings as at 31 December 2004, resulting in a revaluation surplus of RMB26,460,000 (2003: RMB27,588,000) which has been credited to the revaluation reserve. The valuation was carried out by Chesterton Petty Limited, a firm of professionally qualified valuers, on an open market value basis. At 31 December 2004, the carrying value of these revalued land and buildings amounted to approximately RMB579,279,000 (2003: RMB445,301,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation of approximately RMB489,895,000 (2003: RMB381,459,000).

Included in construction in progress is interest capitalised of approximately RMB8,666,000 (2003: Nil).

## 13. INTANGIBLE ASSETS

	THE GROUP		
	Goodwill RMB'000	Exclusive rights of operation RMB'000	Total RMB'000
<b>GROSS AMOUNT</b>			
At 1 January 2004	70,351	13,000	83,351
Arising on:			
– acquisition of a subsidiary (note 32)	98	–	98
– acquisition of business (note a and note 34)	600	–	600
– adjustments to fair values of assets acquired in prior periods (note b)	17,775	–	17,775
– acquisition (note c)	–	2,800	2,800
<b>At 31 December 2004</b>	<b>88,824</b>	<b>15,800</b>	<b>104,624</b>
<b>AMORTISATION</b>			
At 1 January 2004	4,833	189	5,022
Charge for the year	4,439	464	4,903
<b>At 31 December 2004</b>	<b>9,272</b>	<b>653</b>	<b>9,925</b>
<b>CARRYING VALUES</b>			
<b>At 31 December 2004</b>	<b>79,552</b>	<b>15,147</b>	<b>94,699</b>
At 31 December 2003	65,518	12,811	78,329

Notes:

- The Group entered into a joint venture contract with certain independent third party in the PRC. Under the terms of contracts, the Group agreed to inject capital into the subsidiary in cash and the PRC joint venture partner agreed to inject capital into the subsidiary in the form of cash and non-cash assets. Upon completion of the capital injection by both parties, the Group recognised an amount of RMB600,000, representing the excess of the Group's initial capital contribution in the subsidiary over the Group's interest in the fair value of the net assets of the subsidiary. Goodwill is amortised using straight line method over 20 years.
- During the year, adjustments were made to the carrying amount of the identifiable assets and liabilities of Jinhua Xinao Gas Company Limited ("Jinhua Xinao") acquired in December 2003. A valuation report received in the current period indicated that the fair value of the property, plant and equipment of Jinhua Xinao at the date of acquisition was RMB14,059,000 less than the original estimate, and the remaining amount of RMB3,716,000 represented the adjustments of fair value for the property, plant and equipment of certain subsidiaries acquired in 2003. Consequently, the goodwill arising on acquisition should have been increased by an equivalent amount. If the adjusted fair value for property, plant and equipment had been incorporated from the date of acquisition, the profit for 2003 would have been decreased by an increase in the amortisation charge in respect of goodwill of RMB59,000. These effects have been included in the income statement for the current period.
- The amount arose from the acquisition of exclusive rights to operate in gas pipeline infrastructure and provision of piped gas in Wenzhou City in the PRC, for a period of 30 years. The exclusive rights of operation is amortised on a straight line method over the relevant operation period.
- The amortisation period adopted for goodwill is 20 years.

## 14. NEGATIVE GOODWILL

	THE GROUP RMB'000
GROSS AMOUNT	
At 1 January 2004	4,538
Arising on acquisition of additional interests in subsidiaries during the year	482
<b>At 31 December 2004</b>	<b>5,020</b>
RELEASED TO INCOME	
At 1 January 2004	418
Released in the year	251
<b>At 31 December 2004</b>	<b>669</b>
CARRYING AMOUNT	
<b>At 31 December 2004</b>	<b>4,351</b>
At 31 December 2003	4,120

The negative goodwill is released to income on a straight line basis of 20 years, being the weighted average useful lives of non-monetary assets acquired.

## 15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	268,868	20,564
Amounts due from subsidiaries	1,715,164	1,260,348
	<b>1,984,032</b>	<b>1,280,912</b>

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

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

## 16. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Share of net assets	54,228	3,235
Goodwill on acquisition of an associate	6,797	7,159
	<b>61,025</b>	<b>10,394</b>

## 16. INTERESTS IN ASSOCIATES (continued)

Details of the Group's associates as at 31 December 2004 are as follows:

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

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

The goodwill on acquisition of an associate of RMB7,250,000 arose on the acquisition of the associate in 2003. Amortisation charged in the current year amounting to approximately RMB362,000 (2003: RMB91,000) has been included in the amount reported as share of results of associates in the consolidated income statement.

## 17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Share of net assets	170,499	22,105

## 17. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Details of the Group's jointly controlled entities as at 31 December 2004 are as follows:

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

## 18. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Investment securities		
Insurance fund	1,000	1,000
Unlisted equity securities	439	–
	1,439	1,000

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

## 19. INVENTORIES

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Construction materials	58,468	43,421
Gas appliances	23,503	17,449
Piped gas	8,109	2,168
Bottled liquefied petroleum gas	7,997	8,022
Spare parts and consumable	8,822	1,890
	<b>106,899</b>	<b>72,950</b>

All inventories are carried at cost. For 2003, gas appliances of approximately RMB5,825,000 were carried at net realisable value.

The cost of inventories recognised as an expense during the year was RMB195,585,000 (2003: RMB100,539,000).

## 20. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2004 RMB'000	2003 RMB'000
The following is an aged analysis of trade receivable:		
0 – 3 months	170,664	129,244
4 – 6 months	37,398	37,125
7 – 9 months	28,906	11,528
10 – 12 months	9,370	2,813
More than 1 year	–	480
Trade receivable	<b>246,338</b>	<b>181,190</b>
Prepayments, deposits and other receivables	<b>134,657</b>	<b>88,026</b>
	<b>380,995</b>	<b>269,216</b>

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

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Contract costs incurred plus recognised profits	324,011	185,958
Less: Progress billings	(248,413)	(197,868)
	<b>75,598</b>	<b>(11,910)</b>
Analysed for reporting purposes as:		
Amounts due from customers for contract work	162,035	108,284
Amounts due to customers for contract work	(86,437)	(120,194)
	<b>75,598</b>	<b>(11,910)</b>

## 22. AMOUNTS DUE FROM RELATED COMPANIES

### THE GROUP

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

Name of company	Balance at 31.12.2004 RMB'000	Balance at 1.1.2004 RMB'000	Maximum amount outstanding during the year RMB'000
新奧集團石家莊化工機械股份有限公司 ("Xiniao Group Shijiazhuang Chemical and Machinery Company Limited")	16,147	9,973	16,147
廊坊新城房地產開發有限公司 ("Langfang Xincheng Property Development Company Limited")	14,308	1,320	14,308
廊坊新奧物業管理有限公司 ("Langfang Xiniao Property Management Company Limited")	7,127	1,954	7,127
安瑞科(蚌埠)壓縮機有限公司 ("Enric (Bengbu) Compressor Company Limited")	4,744	1,002	5,997
湛江市燃氣集團公司* ("Zhanjiang City Gas Group Company")*	2,392	–	2,494
石家莊安瑞科氣體機械有限公司 ("Shijiazhuang Enric Gas Equipment Company Limited")	2,300	–	2,300
萊陽市煤氣公司* ("Laiyang City Coal Gas Company")*	1,535	1,366	1,535
新鄉市燃氣總公司* ("Xinxiang City Gas Corporation")*	704	–	704
廊坊新奧酒店管理有限公司 ("Langfang Xiniao Hotel Management Company Limited")	649	89	649
連雲港科普置業公司* ("Lianyungang Kepu Property Company")*	550	550	550
新奧集團股份有限公司 ("Xiniao Group Company Limited")	449	–	449
廊坊新奧置業有限公司 ("Langfang Xiniao Property Company Limited")	160	–	160
蘭溪東升能源有限公司* ("Lanxi Dongsheng Energy Company Limited")*	88	49	88
北京市昌平區市政經濟發展總公司* ("Beijing City Changping District Urban Economic Development Corporation")*	43	43	43
新奧集團國際經濟發展有限公司 ("Xiniao Group International Economic Development Company Limited")	28	–	70
常州市武進燃氣總公司* ("Changzhou City Wujin Gas Corporation")*	–	1,983	1,983
諸城市燃氣熱力總公司* ("Zhucheng City Gas and Heating Corporation")*	–	721	721
連雲港市城市建設投資有限責任公司* ("Lianyungang City Urban Construction Investment Company Limited")*	–	275	275
開封市發展投資有限公司* ("Kaifeng City Development Investment Company Limited")*	–	200	200
海寧市萬通燃氣有限責任公司* ("Haining City Wantong Gas Company Limited")*	–	34	34
淮安市燃氣總公司* ("Huai'an City Gas Corporation")*	–	19	19
	51,224	19,578	

\* Minority shareholders of subsidiaries



**22. AMOUNTS DUE FROM RELATED COMPANIES (continued)**

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

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

**23. TRADE AND OTHER PAYABLES**

	THE GROUP	
	2004 RMB'000	2003 RMB'000
The following is an aged analysis of trade payable:		
0 – 3 months	161,640	179,726
4 – 6 months	33,759	14,889
7 – 9 months	20,175	6,882
10 – 12 months	8,731	5,582
More than 1 year	28,155	22,714
Trade payable	252,460	229,793
Advances received from customers	108,925	11,727
Accrued charges and other payables	121,524	67,278
	482,909	308,798

## 24. AMOUNTS DUE TO RELATED COMPANIES

### THE GROUP

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

Name of company	2004 RMB'000	2003 RMB'000
株洲市城市建設投資經營有限公司* ("Zhuzhou City Urban Construction Investment and Operation Company Limited")*	4,182	30,033
Changzhou City Wujin Gas Corporation	1,461	3,663
通遼市日新天然氣有限責任公司* ("Tongliao City Rixin Natural Gas Company Limited")*	970	–
Enric (Bengbu) Compressor Company Limited	809	25
Zhanjiang City Gas Group Company*	752	–
北京新奧廣廈房地產開發有限公司 ("Beijing Xinao Guangxia Property Development Company Limited")	290	290
桂林旅遊股份有限公司* ("Guilin Travel Company Limited")*	201	–
海寧市民泰煤氣有限責任公司* ("Haining City Mintai Coal Gas Company Limited")*	63	51
Langfang Xincheng Property Development Company Limited	9	–
蚌埠新奧置業有限公司 ("Bengbu Xinao Property Company Limited")	8	–
湘潭市煤氣公司* ("Xiangtan City Coal Gas Company")*	–	12,465
長沙市燃氣總公司* ("Changsha City Gas Corporation")*	–	10,306
Xinao Group Shijiazhuang Chemical and Machinery Company Limited	–	2,209
Xinao Group International Economic Development Company Limited	–	945
Huaian City Gas Corporation*	–	271
Haining City Wantong Gas Company Limited*	–	66
Xinao Group Company Limited	–	8
	<b>8,745</b>	<b>60,332</b>

\* *Minority shareholders of subsidiaries*

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

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

## 25. AMOUNTS DUE TO SUBSIDIARIES

### THE COMPANY

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

**26. BANK AND OTHER LOANS**

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Secured bank loans	45,734	33,173	–	–
Unsecured bank loans	1,303,353	1,053,244	537,420	620,100
	1,349,087	1,086,417	537,420	620,100
Unsecured loans from minority shareholders	509	25,509	–	–
	1,349,596	1,111,926	537,420	620,100
The bank and other loans are repayable:				
Within one year	643,441	541,390	289,380	82,680
Between one to two years	279,844	322,022	248,040	289,380
Between two to five years	186,311	248,514	–	248,040
More than five years	240,000	–	–	–
	1,349,596	1,111,926	537,420	620,100
Less: Amount due within one year shown under current liabilities	(643,441)	(541,390)	(289,380)	(82,680)
Amount due after one year	706,155	570,536	248,040	537,420

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

**27. CONVERTIBLE BONDS**

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

## 28. DEFERRED TAXATION

At the balance sheet date, the Group had deferred tax liabilities amounting to approximately RMB24,205,000 (2003: RMB17,058,000) arising on valuation of properties. The movements of deferred taxation during the current and prior reporting periods are as follows:

	2004 RMB'000	2003 RMB'000
At beginning of the year	17,058	10,618
Charge to equity during the year	7,147	6,613
Disposal of a subsidiary	–	(48)
Reversal on disposals of land and buildings	–	(125)
At end of the year	24,205	17,058

At the balance sheet date, the Group has unused tax losses of approximately RMB80,587,000 (2003: RMB33,662,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB1,823,000 (2003: RMB1,914,000) and RMB29,901,000 (2003: RMB31,748,000) that will expire in 2007 and 2008 respectively. Other losses will expire in 2009.

## 29. SHARE CAPITAL

	2004 Number of shares	2003 Number of shares	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At beginning and end of the year	3,000,000,000	3,000,000,000	300,000	300,000
Issued and fully paid:				
At beginning of the year	737,000,000	737,000,000	73,700	73,700
Issue of shares on placing	122,000,000	–	12,200	–
Issue of shares on exercise of share options	8,487,500	–	849	–
At end of the year	867,487,500	737,000,000	86,749	73,700

	RMB'000	RMB'000
Presented in financial statements as:		
At beginning of the year	78,122	78,122
Issue of shares on placing	12,932	–
Issue of shares on exercise of share options	900	–
At end of the year	91,954	78,122

**29. SHARE CAPITAL** (continued)

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

On 2 March 2004, 8,100,000 shares of HK\$0.10 each were issued at HK\$2.265 per share by way of exercise of share option. These shares rank pari passu with the existing shares in all respects. The net proceeds from shares issued were used as general working capital of the Group.

On 20 December 2004, 387,500 shares of HK\$0.10 each were issued at HK\$2.265 per share by way of exercise of share option. These shares rank pari passu with the existing shares in all respects. The net proceeds from shares issued were used as general working capital of the Group.

**30. SHARE OPTION SCHEME**

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

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

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

### 30. SHARE OPTION SCHEME (continued)

The outstanding share options under 2001 Scheme were cancelled in 2003. The following tables disclose details of the Company's share options held by the employees (including directors) and movements in such holdings under the 2002 Scheme during the year:

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

	Date of grant	Exercise period	Exercise price	Number of options outstanding at 1.1.2003	Granted during the year	Number of options outstanding at 31.12.2003
Directors	14.2.2003	15.8.2003 – 14.2.2013	HK\$2.265	–	19,250,000	19,250,000
Employees	14.2.2003	15.8.2003 – 14.2.2013	HK\$2.265	–	13,050,000	13,050,000
				–	32,300,000	32,300,000

8,100,000 shares and 387,500 shares were issued under the Company's share option scheme on 2 March 2004 and on 20 December 2004 respectively. The fair value of the Company's share at the dates of issue for the exercise of share option on 2 March 2004 and 20 December 2004 are HK\$4.01 and HK\$3.95 per share respectively.

At 31 December 2004, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 23,812,500 (2003: 32,300,000) representing 2.74% (2003: 4.4%) of the shares of the Company in issue as at that date.

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

### 31. RESERVES

#### THE GROUP

	Share premium RMB'000	Special reserve RMB'000	Goodwill reserve RMB'000	Statutory reserves RMB'000	Revaluation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2003	579,828	1,167	5,590	–	25,078	249,692	861,355
Surplus arising on valuation of land and buildings	–	–	–	–	27,588	–	27,588
Tax effect on valuation surplus	–	–	–	–	(6,613)	–	(6,613)
Share of valuation surplus by minority shareholders (net of deferred tax)	–	–	–	–	(5,443)	–	(5,443)
Eliminated on disposal of a subsidiary	–	–	–	–	(181)	181	–
Eliminated on disposals of land and buildings	–	–	–	–	(375)	375	–
Reversal of tax effect on valuation surplus upon disposal of a subsidiary	–	–	–	–	44	(44)	–
Reversal of tax effect on valuation surplus upon disposal of land and buildings	–	–	–	–	112	(112)	–
Profit for the year	–	–	–	–	–	183,090	183,090
Transfer	–	–	–	33,430	–	(33,430)	–
At 31 December 2003 and 1 January 2004	579,828	1,167	5,590	33,430	40,210	399,752	1,059,977
Surplus arising on valuation of land and buildings	–	–	–	–	26,460	–	26,460
Tax effect on valuation surplus	–	–	–	–	(7,147)	–	(7,147)
Share of valuation surplus by minority shareholders (net of deferred tax)	–	–	–	–	(1,644)	–	(1,644)
Arising on shares issued on placing	483,657	–	–	–	–	–	483,657
Arising on shares issued on exercise of share options	19,478	–	–	–	–	–	19,478
Share issue expenses	(12,654)	–	–	–	–	–	(12,654)
Profit for the year	–	–	–	–	–	252,257	252,257
Transfer	–	–	–	10,920	–	(10,920)	–
At 31 December 2004	1,070,309	1,167	5,590	44,350	57,879	641,089	1,820,384

### 31. RESERVES (continued)

#### THE GROUP (continued)

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

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

#### THE COMPANY

	Share premium RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2003	579,828	(2,032)	577,796
Loss for the year	–	(12,186)	(12,186)
At 31 December 2003 and 1 January 2004	579,828	(14,218)	565,610
Arising on shares issued on placing	483,657	–	483,657
Arising on shares issued on exercise of share options	19,478	–	19,478
Share issue expenses	(12,654)	–	(12,654)
Loss for the year	–	(16,643)	(16,643)
<b>At 31 December 2004</b>	<b>1,070,309</b>	<b>(30,861)</b>	<b>1,039,448</b>

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

At the balance sheet date, the Company's reserves available for distribution to shareholders amounted to approximately RMB1,039,448,000 (2003: RMB565,610,000).



### 32. ACQUISITION OF SUBSIDIARIES

During the years ended 31 December 2004 and 2003, the Group acquired the following companies, particulars of which are as follows:

Name of subsidiary	Acquired company	Equity interest acquired	Consideration
<b>Year ended 31 December 2004</b>			
新奧(中國)燃氣投資有限公司 XinAo (China) Gas Investment Company Limited	汕頭新奧燃氣有限公司 Shantou XinAo Gas Company Limited	51%	RMB10,000,000
<b>Year ended 31 December 2003</b>			
XinAo Jiangsu Investment Limited	連雲港新奧燃氣有限公司 Lianyungang XinAo Gas Company Limited	70%	RMB50,000,000 (note a)
	連雲港市宏大燃氣設備安裝工程有限公司 Lianyungang City Hongda Gas Equipment Engineering Company Limited	62%	

(a) The consideration of RMB50,000,000 was paid for both Lianyungang XinAo Gas Company Limited and Lianyungang City Hongda Gas Equipment Engineering Company Limited.

### 32. ACQUISITION OF SUBSIDIARIES (continued)

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

	2004 RMB'000	2003 RMB'000
<b>Net assets acquired</b>		
Property, plant and equipment	15,211	72,415
Inventories	592	1,317
Trade and other receivables	5,381	2,462
Bank balances and cash	8,529	4,860
Trade and other payables	(2,963)	(5,211)
Bank and other loans	–	(30,000)
Minority interests	(16,848)	(15,404)
	9,902	30,439
Goodwill	98	19,561
Total consideration	10,000	50,000
<b>Satisfied by</b>		
Cash consideration	10,000	50,000
<b>Outflow of cash and cash equivalents arising on acquisition</b>		
Cash consideration	10,000	50,000
Bank balances and cash acquired	(8,529)	(4,860)
Net outflow of cash and cash equivalents in respect of purchase of subsidiaries	1,471	45,140

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

	RMB'000	RMB'000
<b>Results</b>		
Contribution to the Group's turnover	2,650	5,295
Contribution to the Group's profit (loss) for the year	211	(831)

### 33. DISPOSAL OF A SUBSIDIARY

In 2003, the Group disposed of a subsidiary, 安吉新奥燃气有限公司 (“Anji XinAo Gas Company Limited”). The net assets of Anji XinAo Gas Company Limited at the date of disposal were as follows:

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

The subsidiary disposed of in 2003 contributed approximately RMB548,000 to the Group's turnover and RMB492,000 to the Group's profit from operations.

### 34. MAJOR NON-CASH TRANSACTIONS

During the year, the Group established certain subsidiaries in the PRC. Apart from the cash contributions of RMB19,864,000 (2003: RMB50,821,000) from the minority shareholders, the minority shareholders also contributed the capital in the form of non-cash assets.

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

	2004 RMB'000	2003 RMB'000
Non-cash assets		
Property, plant and equipment	5,392	390,244
Inventories	556	13,791
Trade and other receivables	–	67,676
Trade and other payables	(600)	(79,489)
Amounts due to related companies	(1,008)	(131,520)
Bank and other loans	–	(118,772)
	4,340	141,930
Goodwill recognised (note 13)	600	32,666
Negative goodwill recognised (note 14)	–	(1,261)
	4,940	173,335

### 35. CAPITAL COMMITMENTS

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment:		
– contracted but not provided for	22,673	25,561
– authorised but not contracted for	14,200	14,200
	36,873	39,761

### 36. LEASE COMMITMENTS

#### The Group as lessee

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

	2004 RMB'000	2003 RMB'000
Within one year	3,117	2,762
In the second to fifth year inclusive	4,089	4,290
Over five years	415	440
	7,621	7,492

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

#### The Group as lessor

Certain of the Group's properties with a carrying amount of RMB51,859,000 (2003: RMB28,279,000) are held for rental purposes. The depreciation charge of these properties amounted to RMB3,216,000 (2003: RMB1,590,000) for the year. The properties are expected to generate rental yields of 6.2% on an ongoing basis. All of the properties held have committed tenants for the next two years.

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

	2004 RMB'000	2003 RMB'000
Within one year	1,026	2,221
In the second to fifth year inclusive	2,345	117
Over five years	120	–
	3,491	2,338

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

**37. PLEDGE OF ASSETS**

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

	2004 RMB'000	2003 RMB'000
Carrying amount of Property, plant and equipment	116,168	79,972

**38. RELATED PARTY TRANSACTIONS**

Nature of transaction	Name of related party	2004 RMB'000	2003 RMB'000
Provision of gas connection service (Note i)	Enric (Bengbu) Compressor Company Limited	–	315
	Shijiazhuang Enric Gas Equipment Company Limited	3,600	–
	Bengbu Xinao Property Company Limited	1,843	–
	Langfang Xincheng Property Development Company Limited	18,412	1,920
		23,855	2,235
Sales of gas (Note ii)	Enric (Bengbu) Compressor Company Limited	73	75
	Langfang Xinao Hotel Management Company Limited	560	536
	Langfang Xinao Property Management Company Limited	6,687	7,714
	Xinao Group Company Limited	145	141
	Langfang Xincheng Property Development Company Limited	207	–
	7,672	8,466	
Sales of materials (Note ii)	Enric (Bengbu) Compressor Company Limited	25	–
Purchase of gas (Note ii)	Anji County Fengling LPG Company	–	222
	Haining City Mintai Coal Gas Company Limited	705	737
	705	959	
Purchase of materials (note ii)	Xinao Group Shijiazhuang Chemical and Machinery Company Limited	5	–
	Enric (Bengbu) Compressor Company Limited	107	–
	Changsha City Gas Corporation	–	152
	112	152	
Repair service expense (Note ii)	Enric (Bengbu) Compressor Company Limited	–	94
Lease of premises by the Group (Note iii)	Langfang Xinao Property Management Company Limited	330	330
	Xinao Group Company Limited	1,739	1,739
	2,069	2,069	

### 38. RELATED PARTY TRANSACTIONS (continued)

Nature of transaction	Name of related party	2004 RMB'000	2003 RMB'000
Lease of premises to the Group (Note iii)	Haining City Wantong Gas Company Limited	50	50
	Haining City Mintai Coal Gas Company Limited	120	90
	Zhanjiang City Gas Group Company	300	–
		470	140
Provision for management services to the Group (Note iv)	Langfang Xinao Property Management Company Limited	1,380	1,380
Purchase of compressed natural gas truck trailers, pressure regulating and gas equipment (Note v)	Xinao Group Shijiazhuang Chemical and Machinery Company Limited	22,380	10,702
	Enric (Bengbu) Compressor Company Limited	11,603	–
		33,983	10,702
Purchase of gas appliances (Note v)	Xinao Group International Economic Development Company Limited	752	42
Purchase of land and buildings (Note vi)	Beijing Xinao Guangxia Property Development Company Limited	–	9,590
Loan advance from minority shareholders (Note vii)	Changzhou City Wujin Gas Corporation	–	17,000
	Huaian City Gas Corporation	–	509
	Kaifeng City Development Investment Company Limited	–	8,000
		–	25,509
Interest payment on loan advance (Note vii)	Changzhou City Wujin Gas Corporation	397	658
	Kaifeng City Development Investment Company Limited	244	86
	Haining City Wantong Gas Company Limited	–	66
	Huaian City Gas Corporation	–	60
	Xiangtan City Coal Gas Company	–	51
Xinxiang City Gas Corporation	–	278	
		641	1,199

**38. RELATED PARTY TRANSACTIONS** *(continued)*

Notes:

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

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

### 39. SEGMENT INFORMATION

#### (a) Business segments

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

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

	2004 RMB'000	2003 RMB'000
Turnover		
Gas connection fees	822,697	516,468
Sales of piped gas	429,779	185,720
Distributions of bottled liquefied petroleum gas	149,185	161,402
Sales of gas appliances	38,284	14,465
	1,439,945	878,055
Profit from operations		
Gas connection fees	588,601	375,478
Sales of piped gas	74,939	28,085
Distributions of bottled liquefied petroleum gas	908	369
Sales of gas appliances	5,200	734
Unallocated other operating income	24,145	21,111
Unallocated expenses:		
– depreciation and amortisation (Note)	(56,622)	(20,962)
– corporate expenses	(278,574)	(172,186)
	358,597	232,629

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



39. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

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

	2004 RMB'000	2003 RMB'000
Assets:		
Segment assets		
gas connection fees	538,321	403,894
sales of piped gas	239,266	219,373
distributions of bottled liquefied petroleum gas	62,584	55,571
sales of gas appliances	41,435	26,966
unallocated segment assets	2,111,851	1,310,024
Unallocated corporate assets	1,924,591	1,082,097
	<b>4,918,048</b>	<b>3,097,925</b>
Liabilities:		
Segment liabilities		
gas connection fees	311,453	222,444
sales of piped gas	58,937	34,193
distributions of bottled liquefied petroleum gas	8,493	1,652
sales of gas appliances	15,797	16,014
unallocated segment liabilities	47,828	82,168
Unallocated corporate liabilities	2,117,246	1,263,908
	<b>2,559,754</b>	<b>1,620,379</b>

OTHER INFORMATION

	Capital additions		Depreciation and amortisation	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Gas connection fees	40,725	98,287	3,420	3,107
Sales of piped gas	29,694	139,145	9,209	8,356
Distributions of bottled liquefied petroleum gas	3,094	8,698	2,140	2,947
Sales of gas appliances	1,454	5,462	434	212
Unallocated segment	738,330	738,185	56,622	20,962
	<b>813,297</b>	<b>989,777</b>	<b>71,825</b>	<b>35,584</b>

(b) Geographical segment

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

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

#### 40. RETIREMENT BENEFITS SCHEME

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

	2004 RMB'000	2003 RMB'000
Retirement benefits contribution made during the year	12,411	3,884

#### 41. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group has set up the following new companies in the PRC. Details of the investments are summarised as follows:

Name of company	Capital contributed by the Group	Proportion of nominal value of registered capital held by the Group	Principal activities
長安新奧燃氣有限公司 ("Changan Xinao Gas Company Limited")	RMB11,341,000	43.62%	Investment in gas pipeline infrastructure and sales of piped gas
台州新奧燃氣有限公司 ("Taizhou Xinao Gas Company Limited")	US\$4,000,000	80%	Investment in gas pipeline infrastructure and sales of piped gas
永康新奧燃氣有限公司 ("Yongkang Xinao Gas Company Limited")	US\$8,000,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
肇慶市高新區新奧燃氣有限公司 ("Zhaoqing City High-New Zone Xinao Gas Company Limited")	US\$1,995,000	95%	Investment in gas pipeline infrastructure and sales of piped gas

## 42. PARTICULAR OF PRINCIPAL SUBSIDIARIES

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
北京新奧燃氣有限公司* ("Beijing Xinao Gas Company Limited")	The PRC	Registered capital US\$1,195,600	95%	Investment in gas pipeline infrastructure and sales of piped gas
北京新奧京昌燃氣有限公司* ("Beijing Xinao Jingchang Gas Company Limited")	The PRC	Registered capital RMB9,900,000	80%	Investment in gas pipeline infrastructure and sales of piped gas
北京新奧京谷燃氣有限公司* ("Beijing Xinao Jinggu Gas Company Limited")	The PRC	Registered capital RMB9,900,000	90%	Investment in gas pipeline infrastructure and sales of piped gas
蚌埠新奧燃氣有限公司* ("Bengbu Xinao Gas Company Limited")	The PRC	Registered capital RMB110,000,000	70%	Investment in gas pipeline infrastructure
蚌埠新奧燃氣發展有限公司* ("Bengbu Xinao Gas Development Company Limited")	The PRC	Registered capital US\$600,000	70%	Sales of piped gas and bottled liquefied petroleum gas
濱州新奧燃氣工程有限公司# ("Binzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$600,000	100%	Investment in gas pipeline infrastructure
亳州新奧燃氣有限公司* ("Bozhou Xinao Gas Company Limited")	The PRC	Registered capital US\$3,200,000	70%	Sales of piped gas
亳州新奧燃氣工程有限公司* ("Bozhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	70%	Investment in gas pipeline infrastructure
長沙新奧燃氣有限公司* ("Changsha Xinao Gas Company Limited")	The PRC	Registered capital RMB150,000,000	55%	Investment in gas pipeline infrastructure and sales of piped gas
長沙新奧燃氣工程有限公司# ("Changsha Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$1,807,300	100%	Investment in gas pipeline infrastructure
常州新奧燃氣有限公司* ("Changzhou Xinao Gas Company Limited")	The PRC	Registered capital US\$5,000,000	60%	Investment in gas pipeline infrastructure and sales of piped gas
巢湖新奧燃氣有限公司# ("Chaohu Xinao Gas Company Limited")	The PRC	Registered capital US\$5,784,000	100%	Investment in gas pipeline infrastructure

## 42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
巢湖新奧燃氣發展有限公司# ("Chaohu Xiniao Gas Development Company Limited")	The PRC	Registered capital US\$420,000	100%	Sales of piped gas
滁州新奧燃氣有限公司* ("Chuzhou Xiniao Gas Company Limited")	The PRC	Registered capital RMB58,710,000	90%	Sales of piped gas
滁州新奧燃氣工程有限公司* ("Chuzhou Xiniao Gas Engineering Company Limited")	The PRC	Registered capital US\$600,000	93%	Investment in gas pipeline infrastructure
貴港新奧燃氣有限公司# ("Guigang Xiniao Gas Company Limited")	The PRC	Registered capital US\$3,500,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
桂林新奧燃氣有限公司* ("Guilin Xiniao Gas Company Limited")	The PRC	Registered capital US\$6,000,000	60%	Investment in gas pipeline infrastructure and sales of piped gas
海安新奧燃氣有限公司# ("Haian Xiniao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	100%	Sales of piped gas
海寧新奧燃氣有限公司* ("Haining Xiniao Gas Company Limited")	The PRC	Registered capital US\$5,000,000	80%	Investment in gas pipeline infrastructure and sales of piped gas
海寧新奧燃氣發展有限公司* ("Haining Xiniao Gas Development Company Limited")	The PRC	Registered capital US\$800,000	86%	Sales of piped gas
淮安新奧燃氣有限公司* ("Huaian Xiniao Gas Company Limited")	The PRC	Registered capital RMB30,000,000	80%	Investment in gas pipeline infrastructure and sales of piped gas and bottled liquefied petroleum gas
葫蘆島新奧燃氣有限公司* ("Huludao Xiniao Gas Company Limited")	The PRC	Registered capital US\$1,207,700	90%	Sales of piped gas
葫蘆島新奧燃氣發展有限公司* ("Huludao Xiniao Gas Development Company Limited")	The PRC	Registered capital US\$1,200,000	90%	Investment in gas pipeline infrastructure
金華新奧燃氣有限公司# ("Jinhua Xiniao Gas Company Limited")	The PRC	Registered capital US\$5,000,000	100%	Investment in gas pipeline infrastructure

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
金華新奧燃氣發展有限公司# ("Jinhua Xinao Gas Development Company Limited")	The PRC	Registered capital US\$600,000	100%	Sales of piped gas
開封新奧燃氣有限公司* ("Kaifeng Xinao Gas Company Limited")	The PRC	Registered capital US\$10,000,000	90%	Investment in gas pipeline infrastructure and sales of piped gas
萊陽新奧燃氣有限公司* ("Laiyang Xinao Gas Company Limited")	The PRC	Registered capital US\$5,000,000	95%	Sales of piped gas and bottled liquefied petroleum gas
萊陽新奧燃氣工程有限公司* ("Laiyang Xinao Gas Project Company Limited")	The PRC	Registered capital US\$800,000	97%	Investment in gas pipeline infrastructure
廊坊新奧燃氣有限公司# ("Langfang Xinao Gas Company Limited")	The PRC	Registered capital US\$9,333,900	100%	Investment in gas pipeline infrastructure and sales of piped gas
廊坊新奧燃氣設備有限公司# ("Langfang Xinao Gas Equipment Company Limited")	The PRC	Registered capital US\$360,000	100%	Manufacture of stored value card gas metre
蘭溪新奧燃氣有限公司* ("Lanxi Xinao Gas Company Limited")	The PRC	Registered capital US\$1,500,000	80%	Investment in gas pipeline infrastructure and sales of piped gas
連雲港新奧燃氣有限公司* ("Lianyungang Xinao Gas Company Limited")	The PRC	Registered capital RMB49,512,100	70%	Sales of piped gas
連雲港新奧燃氣工程有限公司* ("Lianyungang Xinao Gas Development Company Limited")	The PRC	Registered capital RMB10,000,000	70%	Investment in gas pipeline infrastructure
聊城新奧燃氣有限公司* ("Liaocheng Xinao Gas Company Limited")	The PRC	Registered capital RMB16,000,000	90%	Sales of piped gas
聊城新奧燃氣工程有限公司* ("Liaocheng Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$1,200,000	93%	Investment in gas pipeline infrastructure
六安新奧燃氣有限公司# ("Luan Xinao Gas Company Limited")	The PRC	Registered capital RMB20,000,000	100%	Sales of piped gas
六安新奧燃氣工程有限公司# ("Luan Xinao Gas Project Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure

## 42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
南通新奧燃氣工程有限公司# ("Nantong Xinao Gas Technology Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure
青島新奧燃氣有限公司* ("Qingdao Xinao Gas Company Limited")	The PRC	Registered capital RMB20,000,000	90%	Sales of piped gas
青島新奧燃氣設施開發有限公司* ("Qingdao Xinao Gas Establishment Exploiture Company Limited")	The PRC	Registered capital US\$600,000	90%	Investment in gas pipeline infrastructure
青島新奧膠城燃氣有限公司* ("Qingdao Xinao Jiaocheng Gas Company Limited")	The PRC	Registered capital US\$5,000,000	90%	Investment in gas pipeline infrastructure and sales of piped gas
青島新奧膠南燃氣有限公司# ("Qingdao Xinao Jiaonan Gas Company Limited")	The PRC	Registered capital US\$2,000,000	100%	Sales of piped gas
青島新奧膠南燃氣工程有限公司# ("Qingdao Xinao Jiaonan Gas Engineering Company Limited")	The PRC	Registered capital US\$1,000,000	100%	Investment in gas pipeline infrastructure
青島新奧新城燃氣有限公司* ("Qingdao Xinao Xincheng Gas Company Limited")	The PRC	Registered capital US\$1,610,000	90%	Sales of piped gas
青島新奧新城燃氣工程有限公司* ("Qingdao Xinao Xincheng Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	93%	Investment in gas pipeline infrastructure
衢州新奧燃氣有限公司* ("Quzhou Xinao Gas Company Limited")	The PRC	Registered capital RMB50,000,000	90%	Investment in gas pipeline infrastructure
衢州新奧燃氣發展有限公司* ("Quzhou Xinao Gas Development Company Limited")	The PRC	Registered capital US\$600,000	90%	Sales of piped gas
日照新奧燃氣有限公司* ("Rizhao Xinao Gas Company Limited")	The PRC	Registered capital US\$5,600,000	80%	Sales of piped gas
日照新奧燃氣工程有限公司* ("Rizhao Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$1,210,000	86%	Investment in gas pipeline infrastructure

42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
商丘新奧燃氣有限公司# ("Shangqiu Xinao Gas Company Limited")	The PRC	Registered capital US\$7,000,000	100%	Sales of piped gas
商丘新奧燃氣工程有限公司# ("Shangqiu Xinao Gas Engineering Company Limited ")	The PRC	Registered capital US\$3,000,000	100%	Investment in gas pipeline infrastructure
汕頭新奧燃氣有限公司* ("Shantou Xinao Gas Company Limited")	The PRC	Registered capital RMB34,580,000	51%	Sales of piped gas
石家莊新奧燃氣有限公司* ("Shijiazhuang Xinao Gas Company Limited")	The PRC	Registered capital RMB130,000,000	70%	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奧車用燃氣有限公司* ("Shijiazhuang Xinao Vehicle Gas Company Limited")	The PRC	Registered capital RMB1,000,000	46%	Production and sales of gas for vehicle use
泰興新奧燃氣有限公司* ("Taixing Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	90%	Sales of piped gas
泰興新奧燃氣工程有限公司* ("Taixing Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	90%	Investment in gas pipeline infrastructure
通遼新奧燃氣有限公司* ("Tongliao Xinao Gas Company Limited")	The PRC	Registered capital US\$3,000,000	80%	Investment in gas pipeline infrastructure, sales of gas appliances and equipment provision of repair and maintenance service and operation of natural gas stations
溫州新奧燃氣有限公司# ("Wenzhou Xinao Gas Company Limited")	The PRC	Registered capital US\$3,100,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
溫州新奧燃氣工程有限公司# ("Wenzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$700,000	100%	Investment in gas pipeline infrastructure
溫州龍灣新奧燃氣有限公司# ("Wenzhou Longwan Xinao Gas Company Limited")	The PRC	Registered capital US\$6,000,000	100%	Investment in gas pipeline infrastructure and sales of piped gas

## 42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
湘潭新奧燃氣有限公司* ("Xiangtan Xiniao Gas Company Limited")	The PRC	Registered capital RMB100,000,000	85%	Investment in gas pipeline infrastructure and sales of piped gas
新奧(中國)燃氣投資有限公司# ("Xiniao (China) Gas Investment Company Limited")	The PRC	Registered capital US\$30,000,000	100%	Sales of piped gas, supply of electricity and water and investment in infrastructure projects
新奧燃氣發展有限公司# ("Xiniao Gas Development Company Limited") (Formerly known as Xiniao (China) Gas Development Company Limited)	The PRC	Registered capital US\$6,000,000	100%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas
Xiniao Gas Investment Group Limited	British Virgin Islands	Share capital US\$1,000	100%	Investment holding
興化新奧燃氣有限公司# ("Xinghua Xiniao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	100%	Sales of piped gas
興化新奧燃氣工程有限公司# ("Xinghua Xiniao Gas Engineering Company Limited")	The PRC	Registered capital US\$600,000	100%	Investment in gas pipeline infrastructure
新鄉新奧燃氣有限公司* ("Xinxiang Xiniao Gas Company Limited")	The PRC	Registered capital US\$10,000,000	95%	Sales of piped gas and bottled liquefied petroleum gas
新鄉新奧燃氣工程有限公司* ("Xinxiang Xiniao Gas Engineering Company Limited")	The PRC	Registered capital US\$1,200,000	97%	Investment in gas pipeline infrastructure
鹽城新奧燃氣有限公司# ("Yancheng Xiniao Gas Company Limited")	The PRC	Registered capital RMB50,000,000	100%	Investment in gas pipeline infrastructure
鹽城新奧燃氣發展有限公司# ("Yancheng Xiniao Gas Development Company Limited")	The PRC	Registered capital US\$600,000	100%	Sales of piped gas
揚州新奧燃氣有限公司# ("Yangzhou Xiniao Gas Company Limited")	The PRC	Registered capital US\$1,300,000	100%	Sales of piped gas
揚州新奧燃氣工程有限公司# ("Yangzhou Xiniao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure



42. PARTICULAR OF PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
煙台新奧燃氣有限公司# ("Yantai Xinao Gas Company Limited")	The PRC	Registered capital US\$2,100,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
煙台新奧實業有限公司* ("Yantai Xinao Industry Company Limited")	The PRC	Registered capital RMB55,000,000	60%	Investment in CNG vehicle refueling station, pipeline construction, installation of gas equipment, production and sales of gas equipment
湛江新奧燃氣有限公司* ("Zhanjiang Xinao Gas Company Limited")	The PRC	Registered capital RMB85,000,000	60%	Investment in gas pipeline infrastructure and sales of piped gas
諸城新奧燃氣有限公司# ("Zhucheng Xinao Gas Company Limited")	The PRC	Registered capital US\$3,000,000	100%	Sales of piped gas and bottled liquefied petroleum gas
諸城新奧管道工程有限公司# ("Zhucheng Xinao Pipeline Engineering Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure
株洲新奧燃氣有限公司* ("Zhuzhou Xinao Gas Company Limited")	The PRC	Registered capital RMB135,000,000	55%	Investment in gas pipeline infrastructure and sales of piped gas
鄒平新奧燃氣有限公司# ("Zouping Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	100%	Sales of piped gas

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

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

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

None of the subsidiaries had any debt securities subsisting as at 31 December 2004 or at any time during the year.

\* Sino-foreign equity joint venture

# Wholly foreign owned enterprise