

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

1. General

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

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

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

2. Application of Hong Kong Financial Reporting Standards

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

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

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

HKFRS 3 Business Combinations

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

Goodwill

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

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

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

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

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

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

Convertible bonds

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

Classification and measurement of financial assets and financial liabilities

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

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

Derivatives

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

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

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

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

HKAS 17 Leases

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

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

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

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

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

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

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

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

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

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2006.

³ Effective for annual periods beginning on or after 1 December 2005.

⁴ Effective for annual periods beginning on or after 1 March 2006.

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

3. Significant Accounting Policies

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

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

Basis of consolidation

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

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

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

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

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

3. Significant Accounting Policies (continued)

Business combinations

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

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

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

Interests in associates

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

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

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

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

Interests in jointly controlled entities

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

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

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

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

3. Significant Accounting Policies (continued)

Goodwill

Capitalised goodwill arising on acquisitions prior to 1 January 2005

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

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

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

Capitalised goodwill arising on acquisitions on or after 1 January 2005

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

Impairment testing on capitalised goodwill

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

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

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

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

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

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

Revenue recognition

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

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

3. Significant Accounting Policies (continued)

Revenue recognition (continued)

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

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Property, plant and equipment

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

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

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

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

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

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

Construction in progress

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

Investment property

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

Exclusive rights of operation

Exclusive rights of operation represent the cost of acquiring rights to operate gas pipeline infrastructure and provision of piped gas business in various cities of the People's Republic of China (the "PRC"). The exclusive rights of operation is amortised over the respective business operation period.

3. Significant Accounting Policies (continued)

Impairment

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

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

Inventories

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

Gas connection contracts

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

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

Research and development costs

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

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

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

Financial instruments

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

Receivables

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



3. Significant Accounting Policies (continued)

Financial instruments (continued)

Available-for-sale financial assets

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

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

Pledged bank deposits

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

Cash and cash equivalents

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

Bank borrowings

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

Convertible loan notes

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

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

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

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

3. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Payables (other than bank borrowings)

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

Equity instruments

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

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

Derivative financial instruments

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

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

Derecognition

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

Foreign currencies

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

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

3. Significant Accounting Policies (continued)

Foreign currencies (continued)

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

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

Borrowing costs

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

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

Government grants

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

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

Retirement benefit scheme contribution

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

4. Key Sources of Estimation Uncertainty

Revenue recognition of gas connection contract

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

Depreciation of property, plant and equipment

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

Estimated impairment of goodwill

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

Income taxes

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

5. Financial Risk Management Objectives and Policies

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

Currency risk

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

Interest rate risks

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

Fair value interest rate risk

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

5. Financial Risk Management Objectives and Policies (continued)

Cash flow interest rate risk

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

Credit risk

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

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

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

6. Revenue

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

7. Other Income

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

Notes:

- (a) Included in incentive subsidies amounting to RMB9,000,000 (2004: Nil) was granted to 蚌埠新奥燃气有限公司, a subsidiary of the Company, as an incentive for investing in the region. The remaining represented refunds of various taxes as incentives by the government authorities in various cities of the PRC.
- (b) Pursuant to a notice of compensation issued by the relevant government authority in the PRC on 5 January 2004, 长沙新奥燃气有限公司 (“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, RMB13,900,000 (2004: RMB16,702,000) was recognised as income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

8. Finance Costs

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

9. Profit before Taxation

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

10. Remuneration of Directors and Employees

(a) Directors' emoluments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

10. Remuneration of Directors and Employees (continued)

(a) Directors' emoluments (continued)

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

(b) Five highest paid individuals

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

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

11. Taxation

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

The charge represents PRC enterprise income tax for the year.

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

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

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

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

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

12. Dividends

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

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

13. Earnings per Share

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

14. Property, Plant and Equipment

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

14. Property, Plant and Equipment (continued)

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

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

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

15. Prepaid Lease Payments

The Group's prepaid lease payments comprises:

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

16. Investment Properties

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

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

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

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

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

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

17. Goodwill

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



17. Goodwill (continued)

Notes:

- (a) In 2005, the Group entered into joint venture contracts with certain independent third parties in the PRC. Under the terms of contracts, the Group agreed to inject capital into the subsidiaries in cash and the PRC joint venture partners agreed to inject capital into the subsidiaries in the form of cash and non-cash assets. Upon completion of the capital injection by both parties, the Group recognised an amount of RMB9,567,000 (2004: RMB600,000), representing the excess of the Group's initial capital contribution in these subsidiaries over the Group's interest in the fair value of the net assets of these subsidiaries.
- (b) During 2004, adjustments were made to the carrying amount of the identifiable assets and liabilities of Jinhua Xiniao Gas Company Limited ("Jinhua Xiniao") acquired in December 2003. A valuation report received in the current year indicated that the fair value of the property, plant and equipment of Jinhua Xiniao at the date of acquisition was RMB14,059,000 less than the original estimate, and the remaining amount of RMB3,716,000 represented the adjustments of fair value for the property, plant and equipment of certain subsidiaries acquired in 2003. Consequently, the goodwill arising on acquisition should have been increased by an equivalent amount. If the adjusted fair value for property, plant and equipment had been incorporated from the date of acquisition, the profit for 2003 would have been decreased by an increase in the amortisation charge in respect of goodwill of RMB59,000. These effects have been included in the income statement in 2004.

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

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

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

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

18. Exclusive Rights of Operation

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

Notes:

- (a) The addition during 2004 arose from the acquisition of exclusive rights to operate in gas pipeline infrastructure and provision of piped gas in Wenzhou City in the PRC, for a period of 30 years.
- (b) All of the exclusive rights of operation is amortised on a straight-line method over the operation period of 30 years.

19. Negative Goodwill

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

20. Interests in Associates

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

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

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

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

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

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

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

20. Interests in Associates (continued)

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

21. Interests in Jointly Controlled Entities

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

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

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group	Principal activities
鹽城新奧壓縮天然氣有限公司 ("Yancheng Xiniao 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 Xiniao 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 Xiniao 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 Xiniao Gas Development Company Limited")	Incorporated	The PRC	50%	Investment in gas pipeline infrastructure and sales of piped gas
湖州新奧燃氣發展有限公司 ("Huzhou Xiniao Gas Development Company Limited")	Incorporated	The PRC	50%	Sales of piped gas

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

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

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

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

21. Interests in Jointly Controlled Entities (continued)

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

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

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

22. Available-for-sale Investment

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

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

23. Investments in Securities

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

24. Inventories

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

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

25. Trade and Other Receivables

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

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

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

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

26. Derivative Financial Instruments

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

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

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

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

Major terms of the interest rate swap are as follows:

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

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

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

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

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

28. Amounts Due from/to Associates

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

29. Amounts Due from/to Jointly Controlled Entities

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

30. Amounts Due from Related Companies

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

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

* Minority shareholders of subsidiaries

30. Amounts Due from Related Companies (continued)

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

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

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

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

31. Pledged Bank Deposits/Bank Balances and Cash

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

32. Trade and Other Payables

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

33. Amounts due to Related Companies

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

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

* Minority shareholders of subsidiaries

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

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

33. Amounts due to Related Companies (continued)

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

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

34. Bank and Other Loans

	2005 RMB'000	2004 RMB'000
Secured bank loans	109,947	45,734
Unsecured bank loans	1,417,593	1,303,353
	1,527,540	1,349,087
Unsecured loans from minority shareholders	–	509
	1,527,540	1,349,596

The bank and other loans are repayable:

Within one year	566,457	643,441
Between one to two years	9,328	279,844
Between two to five years	229,123	186,311
More than five years	722,632	240,000
	1,527,540	1,349,596
Less: Amount due within one year shown under current liabilities	(566,457)	(643,441)
Amount due after one year	961,083	706,155

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

34. Bank and Other Loans (continued)

Borrowings comprise:

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

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

35. Share Capital

	2005 Number of shares	2004 Number of shares	2005 HK'000	2004 HK'000
Shares of HK0.10 each				
Authorised:				
At beginning and end of the year	3,000,000,000	3,000,000,000	300,000	300,000
Issued and fully paid:				
At beginning of the year	867,487,500	737,000,000	86,749	73,700
Issue of shares on placing	–	122,000,000	–	12,200
Issue of shares on exercise of share options	22,112,500	8,487,500	2,211	849
Issue of shares on conversion of convertible bonds	14,633,560	–	1,463	–
At end of the year	904,233,560	867,487,500	90,423	86,749

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

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

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

36. Convertible Bonds

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

36. Convertible Bonds (continued)

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

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

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

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

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

37. Guaranteed Notes

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

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

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

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

The effective interest rate is approximately 7.92% per annum.

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

38. Deferred Taxation

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

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

At the balance sheet date, the Group has unused tax losses of RMB149,268,000 (2004: RMB80,587,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following year ending 31 December:

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

39. Share Option Scheme

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

39. Share Option Scheme (continued)

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

2002 Scheme

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

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

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

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

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

The financial impact of the existing share options granted and fully vested before 1 January 2005 is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

40. Acquisition of Subsidiaries

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

40. Acquisition of Subsidiaries (continued)

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

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

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

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

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

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

40. Acquisition of Subsidiaries (continued)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2005

40. Acquisition of Subsidiaries *(continued)*

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

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

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

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

41. Incorporation of Subsidiaries

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

42. Capital Commitments

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

43. Lease Commitments**The Group as lessee**

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

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

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

The Group as lessor

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

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

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

44. Pledge of Assets

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

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

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

45. Contingent Liabilities

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

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

46. Related Party Transactions

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

46. Related Party Transactions (continued)

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

46. Related Party Transactions (continued)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

46. Related Party Transactions (continued)

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

46. Related Party Transactions (continued)

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

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

Compensation of key personnel

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

Notes:

- (i) The provision of gas connection service was charged in accordance with rates agreed between the Group and the related parties by reference to the Group's similar transactions with outside customers.
- (ii) The sales and purchases of gas and materials, gas trucks, land and repair service expense were charged in accordance with rates agreed between the Group and related parties.
- (iii) Rental for lease of premises and reimbursement of management fee were determined in accordance with the contracts entered into between the Group and the related parties with reference to open market rates.
- (iv) The provision of management services was determined in accordance with the contract entered into between the Group and the related party with references to open market rates.
- (v) The consideration for acquisition of land and building, compressed natural gas truck trailers, pressure regulating and gas equipment and gas appliances was charged in accordance with prices by reference to the similar transactions with outsiders.
- (vi) The consideration for acquisition of land and buildings was charged in accordance with prices by reference to the similar transactions with outsiders.
- (vii) The loans from/to related parties are unsecured, carried interest at prevailing market rate and repayable on demand.
- (viii) Donation to related party was determined based on the amount approved by the management of the respective subsidiary, the related party has no beneficial interests on the donation.
- (ix) Payments made on behalf of minority shareholders are unsecured, interest free and repayable on demand.
- (x) Rental for lease of assets was determined in accordance with the contracts entered into between the Group and respective parties.
- (xi) The loan advances are unsecured interest free and repayable within twelve months from the balance sheet date.
- (xii) The provision/purchase of services has determined in accordance with the terms agreed between the Group and related parties.
- (xiii) The loan advance is unsecured, carried interest at prevailing market rate and repayable in 2008.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

47. Segment Information

(a) Business segments

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

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

2005

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

2004

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

47. Segment Information (continued)

(a) Business segments (continued)

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

2005

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

2004

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

47. Segment Information (continued)**(a) Business segments** (continued)**OTHER INFORMATION**

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

(b) Geographical segment

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

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

48. Retirement Benefits Scheme

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

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

49. Post Balance Sheet Events

- Subsequent to the balance sheet date 31 December 2005, the Group has set up certain companies established in the PRC. Details of the investments are summarised as follows:

Name of company	Capital contributed by the Group	Proportion of nominal value of registered capital held by the Group	Principal activities
南安市燃氣有限公司 ("Nanan City Gas Company Limited")	RMB6,300,000	42%	Investment in gas pipeline infrastructure
惠安縣燃氣有限公司 ("Hui County Gas Company Limited")	RMB20,000,000	60%	Investment in gas pipeline infrastructure
石獅新奧燃氣有限公司 ("Shishi Xinao Gas Company Limited")	RMB10,000,000	60%	Investment in gas pipeline infrastructure
洛陽新奧華油燃氣有限公司 ("Luoyang Xinao Huayou Gas Company Limited")	US\$5,070,000	51%	Sales of artificial coal gas, natural gas and liquefied gas
上海九環汽車天然氣發展有限公司 ("Shanghai Jiuahuan Vehicle Natural Gas Development Company Limited")	RMB20,000,000	40%	Development and conversion of CNG vehicle equipment and construction and operation of CNG refueling stations
新能化工有限公司 ("Xinneng Chemical Company Limited")	US\$99,000,000	15%	Production of methanol and dimethyl ether
泉州市燃氣有限公司 ("Quanzhou City Gas Company Limited")	RMB270,000,000	60%	Construction and installation of piped gas infrastructure

- Most of above companies are established through cash contribution by the Group and assets injection by the other investors. As at report date, it is still not yet in a position to assess the fair values of the net assets to be injected.
- On 3 March 2006, a placing agreement was entered into by Xinao Group International Investment Limited ("XGII"), the controlling shareholder of the Company, under which a total of 45,211,000 existing shares held originally by XGII was placed to independent third parties at the price of HK\$6.20 per share. After completion of the share placing and subscription, XGII's shareholdings in the Company was diluted from 42.52% to 37.52%
- In March and April 2006, convertible bondholders with face value of HK\$22,500,000 (equivalent to approximately RMB23,400,000) submitted conversion notices to the Company. The Company issued 4,137,928 shares of HK\$0.1 each to the convertible bondholders in accordance with the terms and conditions of the convertible bonds and the conversion price was HK\$5.4375 per share. These share rank pari passu with the existing shares in all respects. The total issued share capital of the Company was increased to 908,371,488 shares after the conversion.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

50. Particular of Principal Subsidiaries

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

50. Particular of Principal Subsidiaries (continued)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

50. Particular of Principal Subsidiaries (continued)

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

50. Particular of Principal Subsidiaries (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
廊坊新奧燃氣設備有限公司# ("Langfang Xiniao 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 Xiniao 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 Xiniao 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 Xiniao 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 Xiniao Gas Company Limited")	The PRC	Registered capital US\$1,933,200	90%	Sales of piped gas
聊城新奧燃氣工程有限公司* ("Liaocheng Xiniao 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 Xiniao 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 Xiniao Gas Project Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure
南通新奧燃氣工程有限公司# ("Nantong Xiniao 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 Xiniao 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 Xiniao 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 Xiniao Jiaocheng Gas Company Limited.")	The PRC	Registered capital US\$5,000,000	90%	Investment in gas pipeline infrastructure and sales of piped gas

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2005

50. Particular of Principal Subsidiaries (continued)

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

50. Particular of Principal Subsidiaries (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
石家莊新奧燃氣有限公司* ("Shijiazhuang Xinao Gas Company Limited")	The PRC	Registered capital RMB300,000,000	70%	Investment in gas pipeline infrastructure and sale of piped gas
石家莊新奧車用燃氣有限公司* ("Shijiazhuang Xinao Vehicle Gas Company Limited")	The PRC	Registered capital RMB1,000,000	45.5%	Production and sale of gas for vehicle use
泰興新奧燃氣有限公司* ("Taixing Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	90%	Sale of piped gas
泰興新奧燃氣工程有限公司* ("Taixing Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	90%	Investment in gas pipeline infrastructure
台州新奧燃氣有限公司* ("Taizhou Xinao Gas Company Limited")	The PRC	Registered capital US\$5,000,000	80%	Investment in gas pipeline infrastructure and sales of piped gas
通遼新奧燃氣有限公司* ("Tongliao Xinao Gas Company Limited")	The PRC	Registered capital US\$3,000,000	80%	Investment in gas pipeline infrastructure, sale of gas appliances and equipment, provision of repair and maintenance service and operation of natural gas stations
通遼新奧燃氣發展有限公司* ("Tongliao Xinao Gas Development Company Limited")	The PRC	Registered capital US\$650,000	80%	Investment in gas pipeline infrastructure
溫州新奧燃氣有限公司# ("Wenzhou Xinao Gas Company Limited")	The PRC	Registered capital US\$3,100,000	100%	Sales of piped gas
溫州新奧燃氣工程有限公司# ("Wenzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$700,000	100%	Investment in gas pipeline infrastructure
溫州龍灣新奧燃氣有限公司# ("Wenzhou Longwan Xinao Gas Company Limited")	The PRC	Registered capital US\$9,500,000	100%	Investment in gas pipeline infrastructure and sale of piped gas
湘潭新奧燃氣有限公司* ("Xiangtan Xinao Gas Company Limited")	The PRC	Registered capital RMB100,000,000	85%	Investment in gas pipeline infrastructure and sale of piped gas

NOTES TO THE FINANCIAL STATEMENTS (continued)

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50. Particular of Principal Subsidiaries (continued)

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

50. Particular of Principal Subsidiaries (continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Principal activities
揚州新奧燃氣工程有限公司# ("Yangzhou Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure
煙台新奧燃氣有限公司# ("Yantai Xinao Gas Company Limited")	The PRC	Registered capital US\$2,100,000	100%	Investment in gas pipeline infrastructure and sale of piped gas
煙台新奧實業有限公司* ("Yantai Xinao Industry Company Limited")	The PRC	Registered capital RMB55,000,000	60%	Investment in CNG vehicle refuelling station, pipeline construction, installation of gas equipment, production and sale of gas equipment
永康新奧燃氣有限公司# ("Yongkang Xinao Gas Company Limited")	The PRC	Registered capital US\$8,000,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
永康新奧燃氣工程有限公司# ("Yongkang Xinao Gas Engineering Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure
肇慶市高新區新奧燃氣有限公司* ("Zhaoqing City High-New Zone Xinao Gas Company Limited")	The PRC	Registered capital US\$2,100,000	95%	Investment in gas pipeline infrastructure and sales of piped gas
諸城新奧燃氣有限公司# ("Zhucheng Xinao Gas Company Limited")	The PRC	Registered capital US\$3,000,000	100%	Sale of piped gas and bottled liquefied petroleum gas
諸城新奧管道工程有限公司# ("Zhucheng Xinao Pipeline Engineering Company Limited")	The PRC	Registered capital US\$800,000	100%	Investment in gas pipeline infrastructure
株洲新奧燃氣有限公司* ("Zhuzhou Xinao Gas Company Limited")	The PRC	Registered capital RMB135,000,000	55%	Investment in gas pipeline infrastructure and sale of piped gas
鄒平新奧燃氣有限公司# ("Zouping Xinao Gas Company Limited")	The PRC	Registered capital US\$1,200,000	100%	Sale of piped gas
汕頭新奧燃氣有限公司* ("Shantou Xinao Gas Company Limited")	The PRC	Registered capital RMB34,580,000	51%	Sale of piped gas

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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50. Particular of Principal Subsidiaries *(continued)*

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

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

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

None of the subsidiaries had any debt securities subsisting as at 31 December 2005 or at any time during the year.

* *Sino-foreign equity joint venture*

Wholly foreign owned enterprise



新奥燃气控股有限公司
XinAo Gas Holdings Limited

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

Tel (852) 2528 5666

Fax (852) 2865 7204

Website www.xinaogas.com

E-mail xinao@xinaogas.com