

## 1. General

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

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

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

## 2. Application of New Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new standard, amendments, and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods have been prepared and presented.

### Financial guarantee contracts

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

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

### The Group acts as the issuer of the financial guarantee contracts

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

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

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

### New standards, amendment or interpretations issued but not yet effective

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

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

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>5</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>6</sup> Effective for annual periods beginning on or after 1 November 2006

<sup>7</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>8</sup> Effective for annual periods beginning on or after 1 January 2008

## 3. Significant Accounting Policies

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

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

### Basis of consolidation

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

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

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

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

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

### 3. Significant Accounting Policies *(continued)*

#### **Business combinations**

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

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

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

#### **Interests in associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those 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 profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equal or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

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

#### **Interests in joint ventures**

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

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

### 3. Significant Accounting Policies (continued)

#### Interests in joint ventures (continued)

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

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

#### Goodwill

##### *Capitalised goodwill arising on acquisitions prior to 1 January 2005*

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

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

##### *Goodwill arising on acquisitions on or after 1 January 2005*

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

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

#### Impairment testing on capitalised goodwill

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

On subsequent disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

### 3. Significant Accounting Policies *(continued)*

#### Revenue recognition

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

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

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

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

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

#### Property, plant and equipment

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

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

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

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

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

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

### 3. Significant Accounting Policies (continued)

#### Investment property

Investment property is property held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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

#### Intangible assets

##### *Intangible assets acquired separately*

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

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

##### *Research and development costs*

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

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

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

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

##### *Intangible assets acquired in a business combination*

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

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

### 3. Significant Accounting Policies *(continued)*

#### **Intangible assets** *(continued)*

##### *Impairment*

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

##### **Impairment**

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

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

##### **Inventories**

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

##### **Gas connection contracts**

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

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

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

### 3. Significant Accounting Policies (continued)

#### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

#### Receivables

Receivables (including trade and other receivables, amounts due from associates, amounts due from jointly controlled entities and amounts due from related companies) are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Available-for-sale financial assets

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

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

#### Pledged bank deposits

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

#### Cash and cash equivalents

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



### 3. Significant Accounting Policies *(continued)*

#### **Financial instruments** *(continued)*

##### *Bank and other loans*

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

##### *Financial liabilities at fair value through profit or loss*

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

##### *Payables (other than bank and other loans)*

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

##### *Equity instruments*

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

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

##### *Derivative financial instruments*

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

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

#### **Financial guarantee contracts**

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

### 3. Significant Accounting Policies (continued)

#### Derecognition

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### Leasing

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

##### *The Group as lessor*

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

##### *The Group as lessee*

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

#### Foreign currencies

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

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

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

### 3. Significant Accounting Policies *(continued)*

#### **Borrowing costs**

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

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

#### **Government grants**

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

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

#### **Retirement benefit scheme contribution**

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

#### **Taxation**

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

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

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

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

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

### 3. Significant Accounting Policies (continued)

#### Equity-settled share-based payment transactions

##### *Share options granted to employees*

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

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

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

### 4. Restatements

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

- (a) During the year ended 31 December 2005, the Group acquired certain subsidiaries and business of which the fair values of the identifiable assets, liabilities and contingent liabilities acquired were determined provisionally. During the year, the Group made certain fair value adjustments with reference to the valuation report to the carrying amounts of the identifiable assets and liabilities of the subsidiaries and business acquired as a result of completing the initial accounting. The adjustments to the fair values at the acquisition date of the identifiable assets, liabilities and contingent liabilities were made as if initial accounting had been incorporated from acquisition date.
- (b) As mentioned in note 2, the Group has applied HKAS 39 and HKFRS 4 (Amendments) *Financial guarantee contracts* in the current year for financial guarantees granted to a bank over the repayment of a loan by an associate. The fair value of the financial guarantee contract at the date of grant, representing a deemed capital contribution to the associate, has been adjusted to the carrying amount of interests in associates and recognised as a financial liability for the financial guarantee contract at 1 January 2005.
- (c) In the current year, the management has performed a reassessment of the functional currency of the Company and considered RMB to be the Company's functional currency. As a result, the conversion option of the convertible bonds issued by the Company in prior years which is settled other than by the exchange of a fixed amount of cash for a fixed number of shares is a conversion option derivative instead of an equity instrument. The Group accounted for the convertible bonds as financial liability at fair value through profit or loss. The adjustments are made retrospectively.

#### 4. Restatements (continued)

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

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

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

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

## 4. Restatements (continued)

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

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

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

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

## 5. Key Sources of Estimation Uncertainty

### Revenue recognition of gas connection contract

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

### Depreciation of property, plant and equipment

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

### Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2006, the carrying amount of goodwill is RMB184,267,000. No impairment loss has been made as the projects of the Group have sufficient cash flows generated from connection fee and gas sales. Details of the recoverable amount calculation are disclosed in note 18.

### Income taxes

As at 31 December 2006, the Group has unused tax losses of RMB317,219,000 available for offset against future profits. No deferred tax asset in relation to unused tax losses has been recognised in the Group's balance sheet due to uncertainty of future profit streams. In cases where there are future profits generated to utilise the tax losses, a material deferred tax assets may arise, which would be recognised in the income statement for the period in which such future profits are recorded.

### Estimated impairment of trade and other receivables

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

## 6. Financial Instruments

### a. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, derivative financial instruments, amounts due from/to associates, jointly controlled entities and related companies, trade and other payables, bank and other loans, convertible bonds, guaranteed notes and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies applied by the Group on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *Currency risk*

Certain loans, convertible bonds and guaranteed notes issued by the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises. Currently, all the operations of the Group are in PRC, the appreciation of RMB will benefit the Group for repaying foreign currency loan in the future.

## 6. Financial Instruments (continued)

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

#### Interest rate risks

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

#### Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank and other borrowings and seven years bullet high yield guaranteed notes ("the notes") issued by the Group in 2005 (see notes 33 and 37 for details of these borrowings and notes respectively). In relation to the notes, the Group aims at keeping the notes at a lower fixed rate in the first two years and at variable rates thereafter. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in fair values of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged notes. These interest rate swaps do not qualify for hedge accounting. The changes in fair value of the interest rate swaps are recognised in the profit and loss as they arise.

#### Cash flow interest rate risk

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

#### Price risk

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

#### Credit risk

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

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

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each half-year end date and balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

### b. Fair value

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

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

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



## 7. Revenue

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

## 8. Other Income

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

### Notes:

- (a) The amount represents refunds of various taxes as incentives by the government authorities in various cities of the PRC. Last year balance included an one-off incentive subsidy amounting to RMB9,000,000 granted to 蚌埠新奥燃气有限公司, a subsidiary of the Company, as an incentive for investing in the region.
- (b) Pursuant to a notice of compensation issued by the relevant government authority in the PRC on 5 January 2004, 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.

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

## 9. Finance Costs

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

## 10. Profit before Taxation

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

## 11. Remuneration of Directors and Employees

### (a) Directors' emoluments

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

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

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

**11. Remuneration of Directors and Employees (continued)****(a) Directors' emoluments (continued)**

The amounts disclosed above include directors' fees of RMB310,000 (2005: RMB284,000) payable to independent non-executive directors. None of the directors waived any emoluments during the year.

**(b) Five highest paid individuals**

The five highest paid individuals in the Group in 2006 and 2005 were all directors of the Company and details of their emoluments are included in note (a) above.

**12. Taxation**

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

The charge represents PRC enterprise income tax for the year.

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

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

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

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

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



### 13. Dividends

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

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

### 14. Earnings Per Share

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

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

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

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

## 15. Property, Plant and Equipment

	Buildings	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
<b>THE GROUP</b>							
COST/VALUATION							
At 1 January 2005	287,618	1,498,209	145,037	75,762	38,247	745,712	2,790,585
Acquisition of subsidiaries	9,026	5,790	4,963	891	349	3,005	24,024
Additions	2,212	16,352	488	85,374	18,651	903,544	1,026,621
Reclassification	22,515	809,021	9,229	540	–	(841,305)	–
Transfer to investment properties	(49,218)	–	–	–	–	–	(49,218)
Disposals	(560)	(2,256)	(2,120)	(4,883)	(368)	–	(10,187)
Net deficit on valuation	(13,972)	–	–	–	–	–	(13,972)
At 1 January 2006	257,621	2,327,116	157,597	157,684	56,879	810,956	3,767,853
Acquisition of subsidiaries	1,395	–	254	253	35	1,066	3,003
Additions	61,923	72,022	116,008	99,438	70,450	1,436,717	1,856,558
Reclassification	111,352	1,085,317	61,443	1,638	336	(1,260,086)	–
Disposals	(7,023)	(2,446)	(19,163)	(9,481)	(809)	–	(38,922)
Net surplus on valuation	(15,534)	–	–	–	–	–	(15,534)
At 31 December 2006	409,734	3,482,009	316,139	249,532	126,891	988,653	5,572,958
Comprising:							
At cost	–	3,482,009	316,139	249,532	126,891	988,653	5,163,224
At valuation 2006	409,734	–	–	–	–	–	409,734
	409,734	3,482,009	316,139	249,532	126,891	988,653	5,572,958
DEPRECIATION AND AMORTISATION							
At 1 January 2005	–	93,492	16,654	22,512	7,994	–	140,652
Provided for the year	10,203	57,454	21,389	15,562	5,424	–	110,032
Eliminated on disposals	(29)	(1,856)	(1,299)	(4,209)	(237)	–	(7,630)
Eliminated on valuation	(10,174)	–	–	–	–	–	(10,174)
At 1 January 2006	–	149,090	36,744	33,865	13,181	–	232,880
Provided for the year	21,286	90,198	36,156	26,008	9,407	–	183,055
Eliminated on disposals	(1,729)	(504)	(5,706)	(6,850)	(468)	–	(15,257)
Eliminated on valuation	(19,557)	–	–	–	–	–	(19,557)
At 31 December 2006	–	238,784	67,194	53,023	22,120	–	381,121
CARRYING VALUES							
<b>At 31 December 2006</b>	<b>409,734</b>	<b>3,243,225</b>	<b>248,945</b>	<b>196,509</b>	<b>104,771</b>	<b>988,653</b>	<b>5,191,837</b>
At 31 December 2005	257,621	2,178,026	120,853	123,819	43,698	810,956	3,534,973

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

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

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

At the balance sheet date, the Group is in the process of obtaining title deeds from certain joint venture partners for its buildings in the PRC amounting to approximately RMB166,830,000 (2005: RMB60,713,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

The Group revalued its buildings at 31 December 2006, resulting in a revaluation surplus of RMB4,023,000 (2005: revaluation deficit of RMB3,798,000), of which RMB5,282,000 (2005: RMB3,428,000 debited) has been credited to the property revaluation reserve and RMB1,259,000 (2005: RMB370,000 debited) has been debited to consolidated income statement. The valuation was carried out by Knight Frank Petty Limited, independent qualified professional valuers not connected with the Group, on an open market value basis. Knight Frank Petty Limited are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. At 31 December 2006, the carrying value of these revalued buildings amounted to RMB409,734,000 (2005: RMB257,621,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation of RMB368,535,000 (2005: RMB226,904,000).

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

## 16. Prepaid Lease Payments

The Group's prepaid lease payments comprises:

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

At the balance sheet date, the Group is in the process of obtaining land use right certificates from certain joint venture partners for the land in the PRC amounting to approximately RMB9,166,000 (2005: RMB7,997,000). In the opinion of the directors, the Group is not required to incur additional cost in obtaining the land use right certificates for the land in the PRC.

## 17. Investment Properties

	RMB'000
FAIR VALUE	
At 1 January 2005	–
Transfer from property, plant and equipment	49,218
Transfer from prepaid lease payments	21,384
Net increase in fair value recognised in the income statement	1,000
At 1 January 2006	71,602
Disposal during the year	(1,225)
Net increase in fair value recognised in the income statement	508
At 31 December 2006	70,885

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

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

The fair value of the Group's investment properties at 31 December 2006 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, independent qualified professional valuers not connected with the Group, on an open market value basis. Knight Frank Petty Limited are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The Group has pledged certain of its investment properties amounting to RMB47,980,000 (2005: RMB27,604,000) to secure general banking facilities and mortgage loan granted to the Group.

The property rental income earned by the Group from its investment properties, all of which is leased out under operating leases, amounted to RMB4,244,000 (2005: RMB4,145,000).



## 18. Goodwill

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

## Notes:

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

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

- (b) During the year, the Group entered into joint venture contracts with certain independent third parties in the PRC. Under the terms of contracts, the Group agreed to inject capital into the subsidiaries in cash and the PRC joint venture partners agreed to inject capital into the subsidiaries in the form of cash and non-cash assets. Upon completion of the capital injection by both parties, the Group recognised an amount of RMB36,980,000, representing the excess of the Group's initial capital contribution in these subsidiaries over the Group's interest in the fair value of the net assets of these subsidiaries.

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

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

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

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

**18. Goodwill (continued)**

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

The Group prepares cash flow forecasts derived from the most recent 15 years financial budgets approved by management on an estimated growth pattern at growth rates between 1.30% to 19.84% at discount rate of 10%. The financial budgets and growth rates are estimated according to the stage of each operation with reference to the development curve of the natural gas industry in the PRC region. This pattern is consistent with the track record of the Group's projects.

**19. Other Intangible Assets**

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

## Notes:

- (a) During the year, pursuant to the terms of a joint venture contract, the Group and the PRC joint venture partner injected capital in cash into a newly established subsidiary, namely 泉州市燃氣有限公司, which the Group owns 60% of the registered capital. In addition to the cash contribution in proportion to the registered capital held by the Group, the Group paid an additional cost of RMB69,990,000 to the PRC government for the right to invest in this subsidiary. The amount paid represents the right of operation in Quanzhou City and is amortised over the operation period of 29 years.
- (b) All other rights of operation and customer base are amortised on a straight-line method over the operation period ranging from 18 to 30 years.



## 20. Interests in Associates

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

Details of the Group's associates as at 31 December 2006 are as follows:

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group	Principal activities
鹽城常建燃氣有限公司 ("Yancheng Changjian Gas Co., Ltd.")	Incorporated	The PRC	45%	Sales of piped gas
東莞新奧莞樟燃氣有限公司 ("Dongguan Xinao Guanzhang Gas Company Limited")	Incorporated	The PRC	47%	Investment in gas pipeline infrastructure and sales of piped gas
北海新奧燃氣有限公司 ("Beihai Xinao Gas Company Limited")	Incorporated	The PRC	68% (note a)	Production and sales of liquefied natural gas ("LNG") and compressed natural gas ("CNG"); design and installation of piped gas facilities; production, sales and repair of gas equipment and appliances
東莞長安新奧燃氣有限公司 ("Dongguan Changan Xinao Gas Company Limited")	Incorporated	The PRC	43.62%	Investment in gas pipeline infrastructure and sales of piped gas
山東魯新天然氣有限公司 ("Shandong Luxin Natural Gas Company Limited")	Incorporated	The PRC	30%	Investment in gas pipeline infrastructure and sales of piped gas
長沙市鑫能車用燃氣有限公司 ("Changsha City Xinneng Vehicle Gas Company Limited")	Incorporated	The PRC	30%	Production and sale of CNG and LNG for vehicle use
咸陽新奧燃氣有限公司 ("Xianyang Xinao Gas Company Limited")	Incorporated	The PRC	40%	Investment in gas pipeline infrastructure and vehicle gas refuelling station, and sales of piped gas and LPG

## 20. Interests in Associates (continued)

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

## Notes:

- (a) The Group holds direct interest of 38% and indirect effective interest of 30% through another associate in the registered capital of Beihai Xiniao Gas Company Limited. That other party holds 62% interest and controls the composition of the board of directors of Beihai Xiniao 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 Xiniao Gas Company Limited and it is therefore classified as an associate of the Group.
- (b) The Group holds 54.57% of the issued share capital of Shanghai Jiuahuan Automobile Liquid Gas Development Joint-stock Company Limited. However, under the joint venture agreement, the Group does not have the power to govern the financial and operating policies of the entity and it is therefore classified as an associate of the Group.
- (c) The Group holds direct interest of 40% and indirect effective interest of 16.37% through another associate in the registered capital of Shanghai Jiuahuan Automobile Natural Gas Development Company Limited. The directors of the Company consider that the Group exercises significant influence over the entity and it is therefore classified as an associate of the Group.
- (d) The Group holds 15% interest in 新能能源有限公司 and has the power to appoint two directors out of a total eleven directors. Accordingly, the directors of the Company consider that the Group exercises significant influence over this entity and it is therefore classified as an associate of the Group.

## 20. Interests in Associates (continued)

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

	RMB'000
<hr/>	
COST	
At 1 January 2005 and 31 December 2005	6,797
Arising on acquisition of associates	64,314
<hr/>	
At 31 December 2006	71,111
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At the balance sheet date, the carrying amount of goodwill represents goodwill arising from the acquisition of:

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

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

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

## 21. Interests in Jointly Controlled Entities

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

Details of the Group's jointly controlled entities as at 31 December 2006 are as follows:

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group	Principal activities
鹽城新奧壓縮天然氣有限公司 ("Yancheng Xinao Compressed Natural Gas Company Limited")	Incorporated	The PRC	50%	Production and distribution of compressed natural gas
東莞新奧燃氣有限公司 ("Dongguan Xinao Gas Company Limited")	Incorporated	The PRC	49%	Investment in gas pipeline infrastructure and sales of piped gas and liquefied petroleum gas
湖州新奧燃氣有限公司 ("Huzhou Xinao Gas Company Limited")	Incorporated	The PRC	50%	Investment in gas pipeline infrastructure, sale of gas appliances and equipment, provision of repair and maintenance service and operation of natural gas station
鹿泉富新燃氣有限公司 ("Luquan Fuxin Gas Company Limited")	Incorporated	The PRC	49%	Investment in gas pipeline infrastructure and sales of piped gas
煙臺新奧燃氣發展有限公司 ("Yantai Xinao Gas Development Company Limited")	Incorporated	The PRC	50%	Investment in gas pipeline infrastructure and sales of piped gas
湖州新奧燃氣發展有限公司 ("Huzhou Xinao Gas Development Company Limited")	Incorporated	The PRC	50%	Sales of piped gas
株州新奧燃氣發展有限公司 ("Zhuzhou Xinao Gas Development Company Limited")	Incorporated	The PRC	55% (note)	Sales of piped gas

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

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

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



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

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

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

## 22. Available-for-sale Investments

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

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

## 23. Inventories

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

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

## 24. Trade and Other Receivables

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

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

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

## 25. Derivative Financial Instruments

	31.12.2006		31.12.2005	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Cross currency interest rate swap not qualify for hedge accounting	–	–	5,504	–
Interest rate swaps not qualify for hedge accounting	–	<b>46,012</b>	–	49,662
	–	<b>46,012</b>	5,504	49,662

Major terms of the interest rate swaps are as follows:

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

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

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



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

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

## 27. Amounts due from/to Associates

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

## 28. Amounts due from/to Jointly Controlled Entities

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

## 29. Amounts due from Related Companies

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

Note:

- (a) The related companies are controlled by Mr. Wang Yusuo ("Mr. Wang") who is the major shareholder and director of the Company.
- (b) The amounts are unsecured, interest free and repayable on demand.

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

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

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

**30. Pledged Bank Deposits/Bank Balances and Cash**

Pledged bank deposits, bank balances and cash comprise short-term bank deposits at prevailing market interest rates and short-term bank deposits at fixed interest rates ranging from 0.72% to 2.25%.

**31. Trade and Other Payables**

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

### 32. Amounts due to Related Companies

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

Notes:

- (a) The related companies are controlled by Mr. Wang who is the major shareholder and director of the Company.  
 (b) The amounts are unsecured, interest free and repayable on demand.

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

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

## 33. Bank and Other Loans

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

Borrowings comprise:

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



### 33. Bank and Other Loans (continued)

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

### 34. Share Capital

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

**34. Share Capital** (continued)

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

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

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

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

**35. Financial Guarantee Liability**

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

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

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

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



### 36. Convertible Bonds

On 15 November 2004, the Group issued zero coupon convertible bonds ("CB") with a principal amount of HK\$550,000,000 (equivalent to approximately RMB583,000,000). The net proceeds amounted to HK\$534,205,000 (equivalent to approximately RMB566,257,000) after the deduction of issue cost of HK\$15,795,000 (equivalent to approximately RMB16,743,000). Unless previously redeemed, converted or purchased and cancelled, the CB will be redeemed at 106.43% of the principal amount on 15 November 2009. The CB can be converted into the Company's ordinary shares of HK\$0.1 each at the conversion price of HK\$5.4375 during the period from 15 December 2004 to 15 November 2009, and will be subject to adjustment in the event of further issues of shares or other dilution events. The CB are listed on The Stock Exchange (Stock Code: 2598). Details of the issue of the CB were disclosed in the Company's announcements dated 26 October 2004 and 29 November 2004.

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

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

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

### 37. Guaranteed Notes

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

On 5 August 2005, the Company issued guaranteed notes in the aggregate principal amount of US\$200,000,000 (equivalent to approximately RMB1,614,240,000) which are unsecured, unconditionally and irrecoverably guaranteed by certain subsidiaries of the Company.

The guaranteed notes are denominated in US dollars at fixed interest rate of 7.375% per annum due in August 2012.

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

The effective interest rate is approximately 7.92% per annum after adjusted for transaction cost.

### 38. Deferred Taxation

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

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

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

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

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

### 39. Share Option Scheme

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



### 39. Share Option Scheme (continued)

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

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

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

#### 2002 Scheme

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

  

	Date of grant	Exercise period	Exercise price	Number of options outstanding at 1.1.2005	Exercised during the year	Number of options outstanding at 31.12.2005
Directors	14.2.2003	15.2.2005 - 14.2.2013	HK\$2.265	17,287,500	(15,587,500)	1,700,000
Employees	14.2.2003	15.8.2003 - 14.2.2013	HK\$2.265	6,525,000	(6,525,000)	–
				23,812,500	(22,112,500)	1,700,000
Exercisable at the end of the year						1,700,000

**39. Share Option Scheme (continued)**

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

At 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 59,400,000 (2005: 1,700,000) representing 6.10% (2005: 0.19%) of the shares of the Company in issue as at that date.

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

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

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

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

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

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

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

In the year ended 31 December 2005, the Group chose not to apply HKFRS 2 to the share options granted by the Group which had been fully vested before 1 January 2005 in accordance with the transitional provision of HKFRS 2.

#### 40. Acquisition of Subsidiaries

##### (a) Acquisition during the year ended 31 December 2006

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

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

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

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

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

If the acquisition of 日照新奧實業有限公司 had been completed on 1 January 2006, total group revenue for the year ended 31 December 2006 would have been RMB3,400,966,000 and profit for the year ended 31 December 2006 would have been RMB482,847,000. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

**40. Acquisition of Subsidiaries (continued)****(b) Acquisitions during the year ended 31 December 2005**

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

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

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

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

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

#### 40. Acquisition of Subsidiaries (continued)

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

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

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

	Carrying amounts before combination and provisional fair values as previously stated RMB'000	Prior year adjustments upon completion of initial accounting RMB'000	Adjusted fair values RMB'000
Net assets acquired:			
Property, plant and equipment	9,898	–	9,898
Prepaid lease payments	2,700	–	2,700
Intangible assets			
– exclusive rights of operation	–	41,000	41,000
– customer base	–	80	80
Inventories	86	–	86
Trade and other receivables	600	–	600
Bank balances and cash	2,142	–	2,142
Trade and other payables	(693)	–	(693)
Taxation payable	(23)	–	(23)
Deferred taxation	–	(13,556)	(13,556)
	14,710	27,524	42,234
Attributable to minority shareholders	(2,207)	(4,129)	(6,336)
Goodwill (discount) on acquisition	12,497	(23,395)	(10,898)
Total consideration	25,000	–	25,000
Satisfied by cash			
Paid			20,000
Unpaid			5,000
			25,000
Net cash outflow arising on acquisition:			
Cash consideration paid			(20,000)
Bank balances and cash acquired			2,142
			(17,858)

## 40. Acquisition of Subsidiaries (continued)

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

- (iii) On 27 December 2005, the Group acquired 95% of the registered capital of 杭州蕭山管道燃氣有限公司 for cash consideration of RMB60,935,000 (included RMB23,300,000 was unpaid as at 31 December 2005). This transaction has been accounted for using the purchase method of accounting.

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

	Acquiree's carrying amount before combination	Fair value adjustment	Provisional fair value as previously stated	Prior year adjustments upon completion of initial accounting	Adjusted fair values
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net assets acquired:					
Property, plant and equipment	5,215	1,180	6,395	–	6,395
Intangible assets – customer base	–	–	–	1,900	1,900
Inventories	854	–	854	–	854
Trade and other receivables	4,454	–	4,454	–	4,454
Amounts due from customers for contract work	4,341	–	4,341	–	4,341
Bank balances and cash	38,195	–	38,195	–	38,195
Trade and other payables	(2,392)	–	(2,392)	–	(2,392)
Amounts due to customers for contract work	(14,333)	–	(14,333)	–	(14,333)
Taxation payable	(14,230)	–	(14,230)	–	(14,230)
	22,104	1,180	23,284	1,900	25,184
Minority interest			(1,165)	(95)	(1,260)
Goodwill on acquisition			38,816	(1,805)	37,011
Total consideration			60,935	–	60,935
Satisfied by cash					
Paid					37,635
Unpaid					23,300
					60,935
Net cash inflow arising on acquisition:					
Cash consideration paid					(37,635)
Bank balances and cash acquired					38,195
					560

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

#### 41. Acquisition of Businesses

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

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

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

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

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

**41. Acquisition of Businesses (continued)**

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

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

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

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





#### 41. Acquisition of Businesses (continued)

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

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

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

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

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

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

**41. Acquisition of Businesses (continued)**

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

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

The revenue and results of the business acquired for the period between the date of acquisition and the balance sheet date are not presented as the financial records of the acquired businesses is not kept separately from the books of 桂林新奥燃气有限公司.

#### 41. Acquisition of Businesses (continued)

- (f) During the year ended 31 December 2005, the Group established two subsidiaries in the PRC, namely 青島新奧膠南燃氣有限公司 and 台州新奧燃氣有限公司 of which the Group owns 100% and 80% of the registered capital, respectively. These transactions have been accounted for using the purchase method of accounting.

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

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

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

#### 42. Other Major Non-cash Transaction

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

**43. Capital Commitments**

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

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

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

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

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

**The Group as lessor**

Certain of the Group's properties with a carrying amount of RMB70,885,000 (2005: RMB71,602,000) are held for rental purposes. The properties are expected to generate rental yields of 4.7% (2005: 5.8%) on an ongoing basis. All of the properties held have committed tenants for the next two years.

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

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

#### 45. Pledge of Assets

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

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

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

#### 46. Related Party Transactions

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

## 46. Related Party Transactions (continued)

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



#### 46. Related Party Transactions (continued)

Notes:

- (i) Donation is made to a non-profit making organisation, 新奧慈善基金會, of which Mr. Wang is the legal representative.
- (ii) Payments made on behalf of minority shareholders are unsecured, interest free and repayable on demand.
- (iii) The loan advances are unsecured, interest free and repayable on demand.
- (iv) The loan advance is unsecured, carried interest at prevailing market rate and repayable in 2008.
- (v) The loan advance is unsecured, carried interest at prevailing market rate and repayable in 2009.

#### Compensation of key management personnel

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

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

#### 47. Segment Information

##### (a) Business segments

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

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

2006

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

## 47. Segment Information (continued)

## (a) Business segments (continued)

2005

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Unallocated segment RMB'000	Consolidated RMB'000 (Restated)
Revenue	1,033,260	767,552	191,463	64,551	–	2,056,826
Result	765,176	138,810	3,960	14,132	–	922,078
Unallocated other income						126,732
Unallocated corporate expenses						(596,959)
						451,851
Share of results of associates	896	240	–	–	–	1,136
Share of results of jointly controlled entities	20,648	288	–	–	–	20,936
Finance costs						(73,383)
Profit before taxation						400,540
Taxation						(38,343)
Profit for the year						362,197



#### 47. Segment Information (continued)

##### (a) Business segments (continued)

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

##### 2006

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

##### 2005

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

## 47. Segment Information (continued)

## (a) Business segments (continued)

## OTHER INFORMATION

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

## (b) Geographical segment

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

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

## 48. Retirement Benefits Scheme

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

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

#### 49. Post Balance Sheet Events

Subsequent to the balance sheet date 31 December 2006, the Group has set up certain companies established in the PRC. Details of the investments are summarised as follows:

Name of company	Capital contributed by the Group	Proportion of nominal value of registered capital held by the Group	Principal activities
東莞市塘廈新奧燃氣有限公司 ("Dongguan City Tangxia Xinao Gas Company Limited")*	RMB392,000	49%	Investment in gas pipeline infrastructure and sales of piped gas
寧波新奧燃氣有限公司 ("Ningbo Xinao Gas Company Limited")	RMB2,450,000	49%	Investment in gas pipeline infrastructure and sales of piped gas
萊陽新奧車用燃氣有限公司 ("Laiyang Xinao Vehicle Gas Company Limited")*	US\$2,000,000	100%	Construction and operation of vehicle gas refuelling stations
蚌埠市高樂登液化汽有限責任公司 ("Bengbu City Gaoledeng LPG Company Limited")*	RMB812,000	70%	Sales of LPG

Most of the above companies are established through cash contribution by the Group and assets injection by the other investors. As at report date, it is still not yet in a position to assess the fair values of the net assets to be injected.

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

#### 50. Particular of Principal Subsidiaries

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by Company	Principal activities
北京新奧燃氣有限公司* Beijing Xinao Gas Company Limited	PRC	Registered capital US\$1,195,600	95.00%	Sales of piped gas
北京新奧華鼎貿易有限公司# Beijing Xinao Huading Trading Company Limited	PRC	Registered capital US\$1,800,000	100.00%	Retail of gas pipelines, related materials and equipment
北京新奧京昌燃氣有限公司* Beijing Xinao Jingchang Gas Company Limited	PRC	Registered capital RMB9,900,000	80.00%	Sales of piped gas
北京新奧京谷燃氣有限公司* Beijing Xinao Jinggu Gas Company Limited	PRC	Registered capital RMB9,900,000	90.00%	Sales of piped gas

## 50. Particular of Principal Subsidiaries (continued)

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by Company	Principal activities
蚌埠新奧燃氣有限公司* Bengbu Xiniao Gas Company Limited	PRC	Registered capital RMB110,000,000	70.00%	Investment in gas pipeline infrastructure
蚌埠新奧燃氣發展有限公司* Bengbu Xiniao Gas Development Company Limited	PRC	Registered capital US\$600,000	70.00%	Sales of piped gas and bottled liquefied petroleum gas
濱州新奧燃氣工程有限公司# Binzhou Xiniao Gas Engineering Company Limited	PRC	Registered capital US\$600,000	100.00%	Investment in gas pipeline infrastructure
亳州新奧燃氣有限公司* Bozhou Xiniao Gas Company Limited	PRC	Registered capital US\$3,200,000	70.00%	Sales of piped gas
亳州新奧燃氣工程有限公司* Bozhou Xiniao Gas Engineering Company Limited	PRC	Registered capital US\$800,000	70.00%	Investment in gas pipeline infrastructure
長沙新奧燃氣有限公司* Changsha Xiniao Gas Company Limited	PRC	Registered capital RMB150,000,000	55.00%	Investment in gas pipeline infrastructure and sales of piped gas
常州新奧燃氣發展有限公司* Changzhou Xiniao Gas Development Company Limited	PRC	Registered capital US\$600,000	60.00%	Sales of piped gas
長沙星沙新奧燃氣有限公司* Changsha Xingsha Xiniao Gas Company Limited	PRC	Registered capital RMB30,000,000	46.75%	Investment in gas pipeline infrastructure and sales of piped gas
常州新奧燃氣工程有限公司* Changzhou Xiniao Gas Engineering Company Limited	PRC	Registered capital US\$5,000,000	60.00%	Investment in gas pipeline infrastructure
巢湖新奧燃氣有限公司# Chaohu Xiniao Gas Company Limited	PRC	Registered capital US\$5,784,000	100.00%	Investment in gas pipeline infrastructure
巢湖新奧燃氣發展有限公司# Chaohu Xiniao Gas Development Company Limited	PRC	Registered capital US\$420,000	100.00%	Sales of piped gas
巢湖新奧車用燃氣有限公司# Chaohu Xiniao Vehicle Gas Company Limited	PRC	Registered capital US\$540,000	100.00%	Production and sale of gas for vehicle use

## 50. Particular of Principal Subsidiaries (continued)

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by Company	Principal activities
滁州新奧燃氣有限公司* Chuzhou Xiniao Gas Company Limited	PRC	Registered capital US\$7,100,000	90.00%	Sales of piped gas
滁州新奧燃氣工程有限公司* Chuzhou Xiniao Gas Engineering Company Limited	PRC	Registered capital US\$600,000	93.00%	Investment in gas pipeline infrastructure
鳳陽新奧燃氣有限公司# Fengyang Xiniao Gas Company Limited	PRC	Registered capital US\$2,000,000	100.00%	Sales of piped gas
鳳陽新奧燃氣工程有限公司# Fengyang Xiniao Gas Engineering Company Limited	PRC	Registered capital US\$600,000	100.00%	Investment in gas pipeline infrastructure
貴港新奧燃氣有限公司# Guigang Xiniao Gas Company Limited	PRC	Registered capital US\$3,500,000	100.00%	Sales of piped gas
貴港新奧燃氣工程有限公司# Guigang Xiniao Gas Engineering Company Limited	PRC	Registered capital US\$500,000	100.00%	Investment in gas pipeline infrastructure
桂林新奧燃氣有限公司* Guilin Xiniao Gas Company Limited	PRC	Registered capital US\$6,000,000	60.00%	Sales of piped gas
桂林新奧燃氣發展有限公司* Guilin Xiniao Gas Development Company Limited	PRC	Registered capital US\$120,000	60.00%	Investment in gas pipeline infrastructure
海安新奧燃氣有限公司# Haian Xiniao Gas Company Limited*	PRC	Registered capital US\$1,200,000	100.00%	Sales of piped gas
海寧新奧燃氣有限公司* Haining Xiniao Gas Company Limited	PRC	Registered capital US\$5,000,000	80.00%	Investment in gas pipeline infrastructure
海寧新奧燃氣發展有限公司* Haining Xiniao Gas Development Company Limited	PRC	Registered capital US\$800,000	86.00%	Sales of piped gas
杭州蕭山管道燃氣發展有限公司* Hangzhou Xiaoshan Piped Gas Development Company Limited	PRC	Registered capital RMB10,000,000	95.00%	Investment in gas pipeline infrastructure and sales of piped gas
惠安縣燃氣有限公司* Huian County Gas Company Limited	PRC	Registered capital RMB20,000,000	60.00%	Investment in gas pipeline infrastructure and sales of piped gas

## 50. Particular of Principal Subsidiaries (continued)

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by Company	Principal activities
淮安新奧燃氣有限公司* Huaian Xiniao Gas Company Limited	PRC	Registered capital RMB30,000,000	80.00%	Investment in gas pipeline infrastructure and sales of piped gas and bottled liquefied petroleum gas
湖南銀通科技有限責任公司* Hunan Yintong Technology Company Limited	PRC	Registered capital RMB9,803,900	51.00%	Research and development, production and sale of IC card metre and software system
葫蘆島新奧燃氣有限公司* Huludao Xiniao Gas Company Limited	PRC	Registered capital US\$1,207,700	90.00%	Sales of piped gas
葫蘆島新奧燃氣發展有限公司* Huludao Xiniao Gas Development Company Limited	PRC	Registered capital US\$1,200,000	90.00%	Investment in gas pipeline infrastructure
金華新奧燃氣有限公司# Jinhua Xiniao Gas Company Limited	PRC	Registered capital US\$5,000,000	100.00%	Investment in gas pipeline infrastructure
金華新奧燃氣發展有限公司# Jinhua Xiniao Gas Development Company Limited	PRC	Registered capital US\$600,000	100.00%	Sales of piped gas
晉江新奧燃氣有限公司* Jinjiang Xiniao Gas Company Limited	PRC	Registered capital RMB60,000,000	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
開封新奧燃氣有限公司* Kaifeng Xiniao Gas Company Limited	PRC	Registered capital US\$10,000,000	90.00%	Sales of piped gas
開封新奧燃氣工程有限公司* Kaifeng Xiniao Gas Engineering Company Limited	PRC	Registered capital US\$800,000	90.00%	Investment in gas pipeline infrastructure
來安新奧燃氣有限公司* Laian Xiniao Gas Company Limited	PRC	Registered capital US\$2,000,000	95.00%	Sales of piped gas
來安新奧燃氣工程有限公司* Laian Xiniao Gas Engineering Company Limited	PRC	Registered capital US\$600,000	95.00%	Investment in gas pipeline infrastructure
萊陽新奧燃氣有限公司* Laiyang Xiniao Gas Company Limited	PRC	Registered capital US\$5,000,000	95.00%	Sales of piped gas

## 50. Particular of Principal Subsidiaries (continued)

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by Company	Principal activities
萊陽新奧燃氣工程有限公司* Laiyang Xinao Gas Project Company Limited	PRC	Registered capital US\$800,000	96.50%	Investment in gas pipeline infrastructure
廊坊新奧燃氣有限公司# Langfang Xinao Gas Company Limited	PRC	Registered capital US\$9,333,900	100.00%	Sales of piped gas
廊坊新奧燃氣設備有限公司# Langfang Xinao Gas Equipment Company Limited	PRC	Registered capital US\$360,000	100.00%	Manufacture of stored value card gas metre
廊坊新奧軟件科技有限公司# Langfang Xinao Software Technology Company Limited	PRC	Registered capital US\$120,000	100.00%	Development, production and sale of IC card metre and software system
蘭溪新奧燃氣有限公司* Lanxi Xinao Gas Company Limited	PRC	Registered capital US\$1,500,000	80.00%	Investment in gas pipeline infrastructure and sales of piped gas
連雲港新奧燃氣有限公司* Lianyungang Xinao Gas Company Limited	PRC	Registered capital RMB49,512,100	70.00%	Sales of piped gas
連雲港新奧燃氣工程有限公司* Lianyungang Xinao Gas Development Company Limited	PRC	Registered capital RMB10,000,000	70.00%	Investment in gas pipeline infrastructure
聊城新奧燃氣有限公司* Liaocheng Xinao Gas Company Limited	PRC	Registered capital US\$1,933,200	90.00%	Sales of piped gas
聊城新奧燃氣工程有限公司* Liaocheng Xinao Gas Engineering Company Limited	PRC	Registered capital US\$1,200,000	93.00%	Investment in gas pipeline infrastructure
六安新奧燃氣有限公司# Luan Xinao Gas Company Limited	PRC	Registered capital RMB20,000,000	100.00%	Sales of piped gas
六安新奧燃氣工程有限公司# Luan Xinao Gas Project Company Limited	PRC	Registered capital US\$800,000	100.00%	Investment in gas pipeline infrastructure
洛陽新奧華油燃氣有限公司* Luoyang Xinao Huayou Gas Company Limited	PRC	Registered capital RMB160,000,000	70%	Investment in gas pipeline infrastructure and sales of piped gas

## 50. Particular of Principal Subsidiaries (continued)

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by Company	Principal activities
青島新奧燃氣有限公司* Qingdao Xinao Gas Company Limited	PRC	Registered capital RMB20,000,000	90.00%	Sales of piped gas
青島新奧燃氣設施開發有限公司* Qingdao Xinao Gas Establishment Exploiture Company Limited	PRC	Registered capital US\$600,000	90.00%	Investment in gas pipeline infrastructure
青島新奧膠城燃氣有限公司* Qingdao Xinao Jiaocheng Gas Company Limited	PRC	Registered capital US\$5,000,000	90.00%	Sales of piped gas
青島新奧膠城燃氣工程有限公司# Qingdao Xinao Jiaocheng Gas Engineering Company Limited	PRC	Registered capital HK\$4,500,000	100.00%	Investment in gas pipeline infrastructure
青島新奧膠南燃氣有限公司# Qingdao Xinao Jiaonan Gas Company Limited	PRC	Registered capital US\$4,400,000	100.00%	Sales of piped gas
青島新奧膠南燃氣工程有限公司# Qingdao Xinao Jiaonan Gas Engineering Company Limited	PRC	Registered capital US\$1,000,000	100.00%	Investment in gas pipeline infrastructure
青島新奧新城燃氣有限公司* Qingdao Xinao Xincheng Gas Company Limited	PRC	Registered capital US\$1,610,000	90.00%	Sales of piped gas
青島新奧新城燃氣工程有限公司* Qingdao Xinao Xincheng Gas Engineering Company Limited	PRC	Registered capital US\$800,000	93.00%	Investment in gas pipeline infrastructure
泉州市燃氣有限公司* Quanzhou City Gas Company Limited	PRC	Registered capital RMB450,000,000	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
衢州新奧燃氣有限公司* Quzhou Xinao Gas Company Limited	PRC	Registered capital RMB50,000,000	90.00%	Investment in gas pipeline infrastructure
衢州新奧燃氣發展有限公司* Quzhou Xinao Gas Development Company Limited	PRC	Registered capital US\$600,000	90.00%	Sales of piped gas
南安市燃氣有限公司* Nanan City Gas Company Limited	PRC	Registered capital RMB30,000,000	42.00%	Investment in gas pipeline infrastructure and sales of piped gas



## 50. Particular of Principal Subsidiaries (continued)

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by Company	Principal activities
南通新奧燃氣工程有限公司# Nantong Xiniao Gas Technology Company Limited	PRC	Registered capital US\$800,000	100.00%	Investment in gas pipeline infrastructure
南通新奧車用燃氣發展有限公司# Nantong Xiniao Vehicle Gas Development Company Limited	PRC	Registered capital US\$5,000,000	100.00%	Construction and operation of vehicle gas refuelling stations
日照新奧燃氣有限公司* Rizhao Xiniao Gas Company Limited	PRC	Registered capital US\$5,600,000	80.00%	Sales of piped gas
日照新奧燃氣工程有限公司* Rizhao Xiniao Gas Engineering Company Limited	PRC	Registered capital US\$1,210,000	86.00%	Investment in gas pipeline infrastructure
日照新奧實業有限公司# Rizhao Xiniao Industry Company Limited	PRC	Registered capital RMB5,000,000	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
商丘新奧燃氣有限公司# Shangqiu Xiniao Gas Company Limited	PRC	Registered capital US\$7,000,000	100.00%	Sales of piped gas
商丘新奧燃氣工程有限公司# Shangqiu Xiniao Gas Engineering Company Limited	PRC	Registered capital US\$3,000,000	100.00%	Investment in gas pipeline infrastructure
汕頭新奧燃氣有限公司* Shantou Xiniao Gas Company Limited	PRC	Registered capital RMB34,580,000	51.00%	Sales of piped gas
石家莊新奧燃氣有限公司* Shijiazhuang Xiniao Gas Company Limited	PRC	Registered capital RMB300,000,000	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奧車用燃氣有限公司* Shijiazhuang Xiniao Vehicle Gas Company Limited	PRC	Registered capital RMB1,000,000	39.00%	Production and sale of gas for vehicle use
石獅新奧燃氣有限公司* Shishi Xiniao Gas Company Limited	PRC	Registered capital RMB10,000,000	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
泰興新奧燃氣有限公司* Taixing Xiniao Gas Company Limited	PRC	Registered capital US\$1,200,000	90.00%	Sales of piped gas
泰興新奧燃氣工程有限公司* Taixing Xiniao Gas Engineering Company Limited	PRC	Registered capital US\$800,000	90.00%	Investment in gas pipeline infrastructure

## 50. Particular of Principal Subsidiaries (continued)

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by Company	Principal activities
台州新奧燃氣有限公司* Taizhou Xinao Gas Company Limited	PRC	Registered capital US\$5,000,000	80.00%	Investment in gas pipeline infrastructure and sales of piped gas
通遼新奧燃氣有限公司* Tongliao Xinao Gas Company Limited	PRC	Registered capital US\$3,000,000	80.00%	Sales of piped gas
通遼新奧燃氣發展有限公司* Tongliao Xinao Gas Development Company Limited	PRC	Registered capital US\$600,000	80.00%	Investment in gas pipeline infrastructure
溫州新奧燃氣有限公司# Wenzhou Xinao Gas Company Limited	PRC	Registered capital US\$3,100,000	100.00%	Sales of piped gas
溫州新奧燃氣工程有限公司# Wenzhou Xinao Gas Engineering Company Limited	PRC	Registered capital US\$700,000	100.00%	Investment in gas pipeline infrastructure
溫州龍灣新奧燃氣有限公司# Wenzhou Longwan Xinao Gas Company Limited	PRC	Registered capital US\$9,500,000	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
湘潭新奧燃氣有限公司* Xiangtan Xinao Gas Company Limited	PRC	Registered capital RMB100,000,000	85.00%	Investment in gas pipeline infrastructure and sales of piped gas
新奧(中國)燃氣投資有限公司# Xinao (China) Gas Investment Company Limited	PRC	Registered capital US\$231,778,124	100.00%	Investment holding
新奧能源物流有限公司# Xinao Energy Logistics Company Limited	PRC	Registered capital US\$12,400,000	100.00%	Transportation of oil products and gas
新奧能源銷售有限公司# Xinao Energy Sales Company Limited	PRC	Registered capital US\$6,200,000	100.00%	Wholesale and retail of LNG & CNG, piped gas facilities, gas equipment, appliances and others
新奧燃氣發展有限公司# Xinao Gas Development Company Limited	PRC	Registered capital US\$6,000,000	100.00%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas

## 50. Particular of Principal Subsidiaries (continued)

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by Company	Principal activities
新奧燃氣工程有限公司# Xinao Gas Engineering Company Limited	PRC	Registered capital US\$7,000,000	100.00%	Investment in gas pipeline infrastructure
Xinao Gas Investment Group Limited#	British Virgin Islands	Share capital US\$1,000	100.00%	Investment holding
新奧(廊坊)燃氣技術研究發展 有限公司# Xinao Gas Langfang Technology Research and Development Company Limited	PRC	Registered capital US\$1,400,000	100.00%	Technology research and development, product development
興化新奧燃氣有限公司# Xinghua Xinao Gas Company Limited	PRC	Registered capital US\$1,200,000	100.00%	Sales of piped gas
興化新奧燃氣工程有限公司# Xinghua Xinao Gas Engineering Company Limited	PRC	Registered capital US\$600,000	100.00%	Investment in gas pipeline infrastructure
新鄉新奧燃氣有限公司* Xinxiang Xinao Gas Company Limited	PRC	Registered capital US\$10,000,000	95.00%	Sales of piped gas and bottled liquefied petroleum gas
新鄉新奧燃氣工程有限公司* Xinxiang Xinao Gas Engineering Company Limited	PRC	Registered capital US\$1,200,000	96.50%	Investment in gas pipeline infrastructure
煙台新奧實業有限公司* Yantai Xinao Industry Company Limited	PRC	Registered capital RMB55,000,000	60.00%	CNG vehicle refuelling station, pipeline construction, installation of gas equipment, production and sale of gas equipment and others
煙台牟平新奧天然氣加氣有限公司* Yantai Muping Xinao Gas Refueling Limited	PRC	Registered capital RMB7,000,000	58.00%	Construction and operation of vehicle gas refuelling stations
鹽城新奧燃氣有限公司* Yancheng Xinao Gas Company Limited	PRC	Registered capital RMB50,000,000	70.00%	Investment in gas pipeline infrastructure
鹽城新奧燃氣發展有限公司* Yancheng Xinao Gas Development Company Limited	PRC	Registered capital US\$600,000	79.00%	Sales of piped gas
鹽城新城新奧燃氣有限公司# Yancheng Xincheng Xinao Gas Company Limited	PRC	Registered capital HK\$20,000,000	100.00%	Investment in gas pipeline infrastructure and sales of piped gas

## 50. Particular of Principal Subsidiaries (continued)

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by Company	Principal activities
揚州新奧燃氣有限公司# Yangzhou Xinao Gas Company Limited	PRC	Registered capital US\$1,300,000	100.00%	Sales of piped gas
揚州新奧燃氣工程有限公司# Yangzhou Xinao Gas Engineering Company Limited	PRC	Registered capital US\$800,000	100.00%	Investment in gas pipeline infrastructure
煙台新奧燃氣有限公司# Yantai Xinao Gas Company Limited	PRC	Registered capital US\$2,100,000	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
永康新奧燃氣有限公司# Yongkang Xinao Gas Company Limited	PRC	Registered capital US\$8,000,000	100.00%	Sales of piped gas
永康新奧燃氣工程有限公司# Yongkang Xinao Gas Engineering Company Limited	PRC	Registered capital US\$800,000	100.00%	Investment in gas pipeline infrastructure
湛江新奧燃氣有限公司* Zhanjiang Xinao Gas Company Limited	PRC	Registered capital RMB85,000,000	90.00%	Investment in gas pipeline infrastructure and sales of piped gas
肇慶市高新區新奧燃氣有限公司* Zhaoqing City High-New Zone Xinao Gas Company Limited	PRC	Registered capital US\$2,100,000	95.00%	Investment in gas pipeline infrastructure and sales of piped gas
鎮江新奧車用燃氣發展有限公司# Zhenjiang Xinao Vehicle Gas Development Company Limited	PRC	Registered capital US\$5,000,000	100.00%	Sale of gas for vehicle use
諸城新奧燃氣有限公司# Zhucheng Xinao Gas Company Limited	PRC	Registered capital US\$3,000,000	100.00%	Sales of piped gas and bottled liquefied petroleum gas
諸城新奧管道工程有限公司# Zhucheng Xinao Pipeline Engineering Company Limited	PRC	Registered capital US\$800,000	100.00%	Investment in gas pipeline infrastructure
株洲新奧燃氣有限公司* Zhuzhou Xinao Gas Limited	PRC	Registered capital RMB135,000,000	55.00%	Investment in gas pipeline infrastructure and sales of piped gas
鄒平新奧燃氣有限公司# Zouping Xinao Gas Company Limited	PRC	Registered capital US\$1,200,000	100.00%	Sales of piped gas

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

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

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

None of the subsidiaries had any debt securities subsisting as at 31 December 2006 or at any time during the year.

\* Sino-foreign equity joint venture

# Wholly foreign owned enterprise