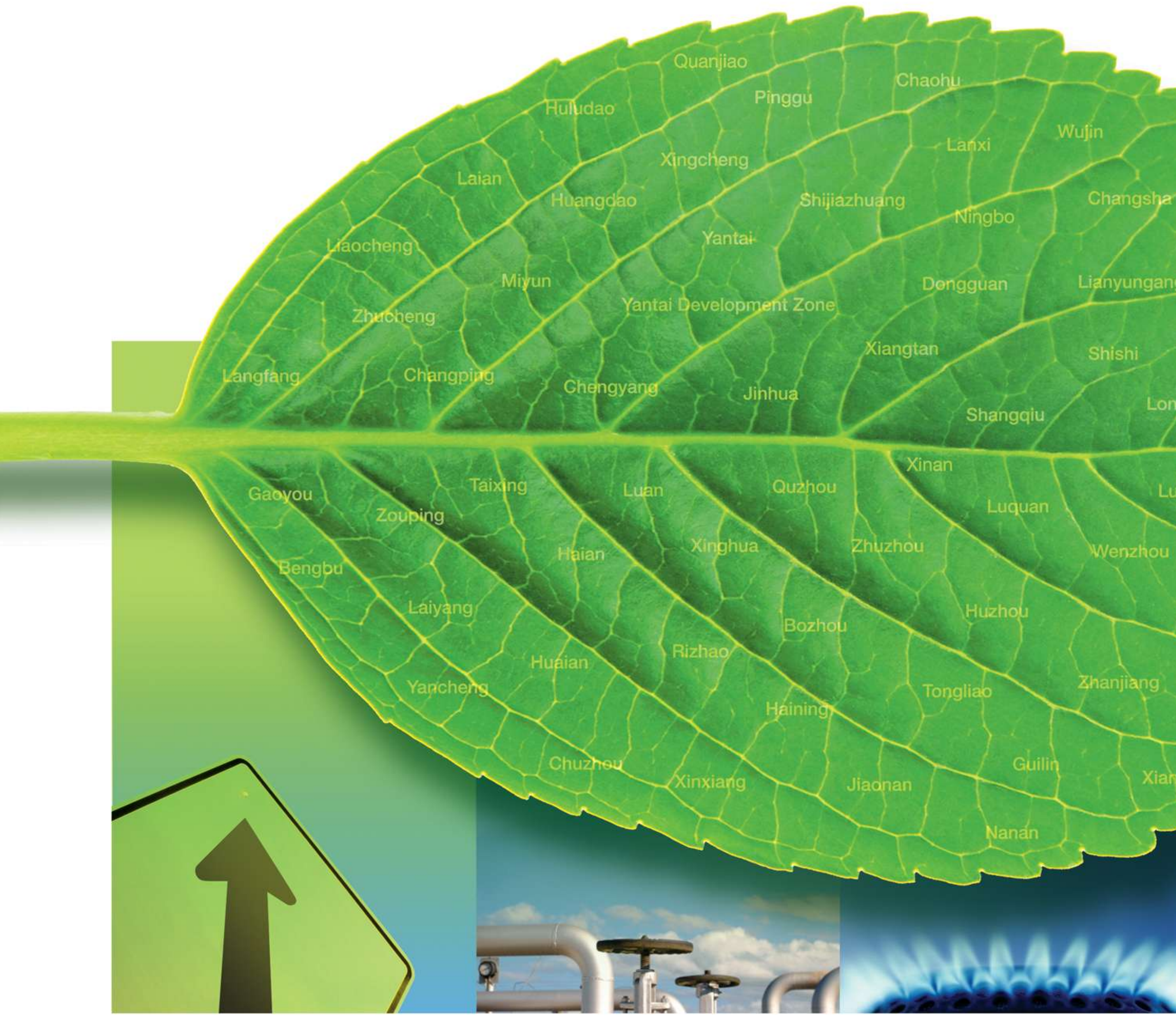
ENN 新奥

XinAo Gas Holdings Limited

(Stock code: 2688)



Optimising Our Coverage

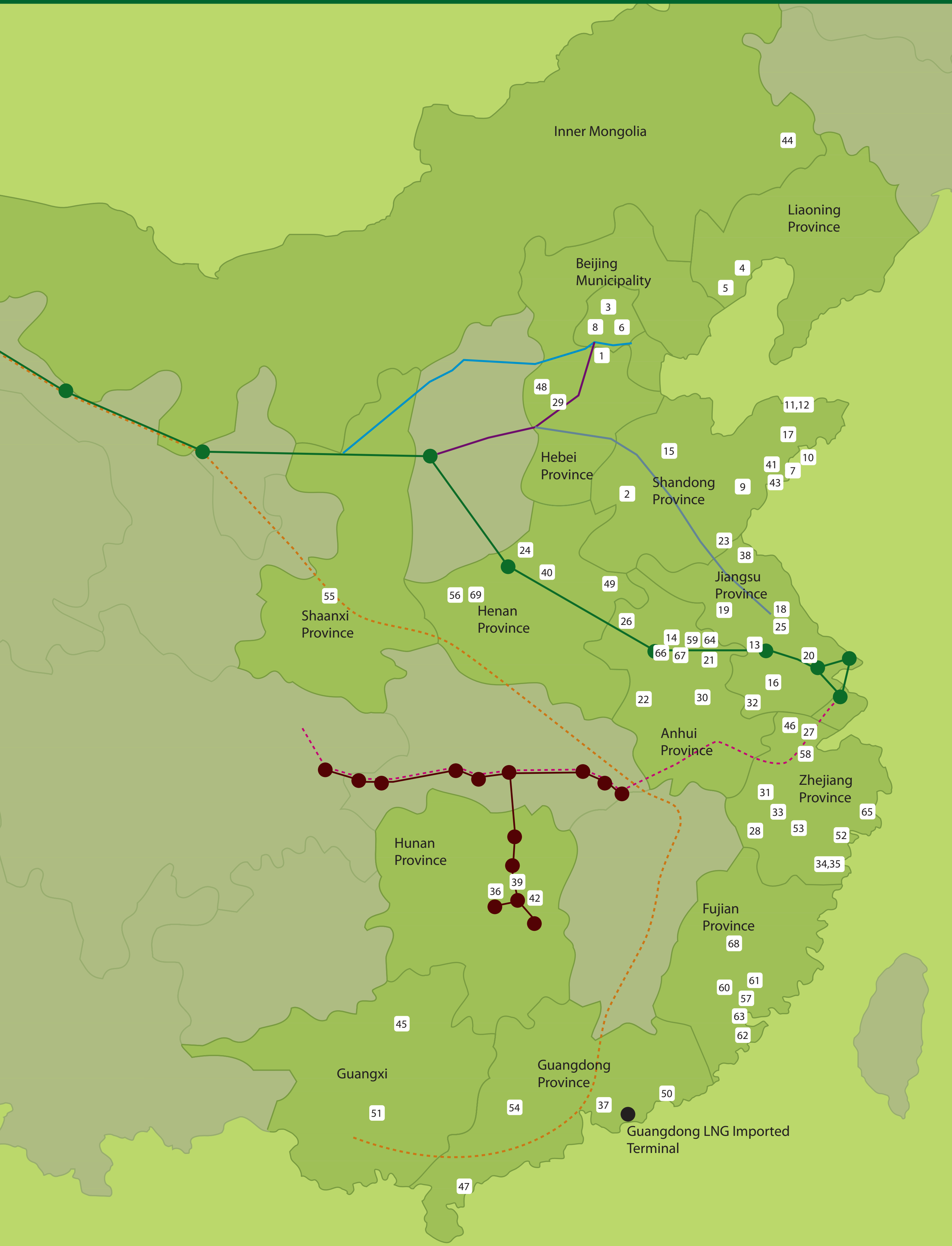
New Domain of Growth

annual report 2007

ENN — Energy & Innovation Ennovation

We devote to utilise extensive energy distribution network, and catch every business opportunity in clean energy market. As energy-saving and emission reduction solutions provider, we contribute to social environment protection and create additional value to shareholders.

OPERATIONAL LOCATIONS



	Operational Location	Connectable Urban Population
1	Langfang	447,000
2	Liaocheng	557,000
3	Miyun	158,000
4	Huludao	457,000
5	Xingcheng	131,000
6	Pinggu	120,000
7	Huangdao	317,000
8	Changping	105,000
9	Zhucheng	362,000
10	Chengyang	480,000
11	Yantai Development Zone[1]	-
12	Yantai	1,789,000
13	Gaoyou	148,000
14	Bengbu	914,000
15	Zouping	188,000
16	Taixing	215,000
17	Laiyang	239,000
18	Yancheng	801,000
19	Huaian	1,151,000
20	Haian	189,000
21	Chuzhou	249,000
22	Luan	324,000
23	Rizhao	302,000
24	Xinxiang	992,000
25	Xinghua	175,000
26	Bozhou	215,000
27	Haining	224,000
28	Quzhou	264,000
29	Shijiazhuang	2,313,000
30	Chaohu	210,000
31	Lanxi	121,000
32	Wujin	986,000
33	Jinhua	110,000
34	Wenzhou[2]	-
35	Longwan[2]	321,000
36	Xiangtan	720,000
37	Dongguan	7,551,000
38	Lianyungang	709,000
39	Changsha	2,146,000
40	Kaifeng	835,000
41	Jiaozhou	230,000
42	Zhuzhou	793,000
43	Jiaonan	319,000
44	Tongliao	436,000
45	Gulin	735,000
46	Huzhou	217,000
47	Zhanjiang	622,000
48	Luquan	86,000
49	Shangqiu	1,466,000
50	Shantou	1,372,000
51	Guigang	370,000
52	Taizhou	583,000
53	Yongkang	219,000
54	Zhaoqing Development Zone	63,000
55	Xianyang	545,000
56	Luoyang	1,474,000
57	Quanzhou	1,017,000
58	Xiaoshan	381,000
59	Fengyang	103,000
60	Nanan	376,000
61	Huian	141,000
62	Shishi	112,000
63	Jinjiang	365,000
64	Laian	82,000
65	Ningbo	244,000
66	Quanjiao	106,000
67	Guzhen	100,000
68	Dehua	100,000
69	Xinan	102,000

40,294,000

West-to-East Pipeline

West-to-East Pipeline II (under construction)

Shaanxi-Beijing Pipeline II

Hebei Nanjing Pipeline

Zhong-Wu Pipeline

Shaanxi-Beijing Pipeline I

Sichuan-East Pipeline (under construction)

Remarks: (1) The population of Yantai Development Zone is included in Yantai
(2) Operational locations in Wenzhou and Longwan are in the development zones and do not have population data

OUR MISSION IS TO BECOME THE LEADING REGIONAL CLEAN ENERGY, ENERGY-SAVING AND EMISSION REDUCTION SOLUTIONS PROVIDER

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Wang Yusuo *(Chairman)*
Yang Yu *(Chief Executive Officer)*
Chen Jiacheng
Zhao Jinfeng
Qiao Limin
Yu Jianchao
Cheung Yip Sang
Cheng Chak Ngok

Non-executive Directors

Zhao Baoju
Jin Yongsheng

Independent non-executive Directors

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Cheng Chak Ngok, *FCCA, CPA, ACIS, ACS*

AUTHORISED REPRESENTATIVES

Yang Yu
Cheng Chak Ngok

MEMBERS OF THE AUDIT COMMITTEE

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

MEMBERS OF THE REMUNERATION COMMITTEE

Yang Yu
Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEAD OFFICE IN THE PRC

Huaxiang Road
Langfang Economic and Technical Development Zone
Langfang City
Hebei Province
The PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Bank of Butterfield International (Cayman) Ltd
Butterfield House
Fort Street
P O Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-16, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK EXCHANGE LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

2688

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISER

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
China Construction Bank
Agricultural Bank of China
Bank of China (Hong Kong)

WEBSITE

www.xinaogas.com

E-MAIL ADDRESS

xinao@xinaogas.com

ENERGY DIVERSIFICATION

With the commencement of more long-distance pipelines in operation, construction of LNG terminals in coastal areas, the Group's utilisation of substitute energy including DME, and the internationalisation of gas sources, the Group gas sources are highly secured.

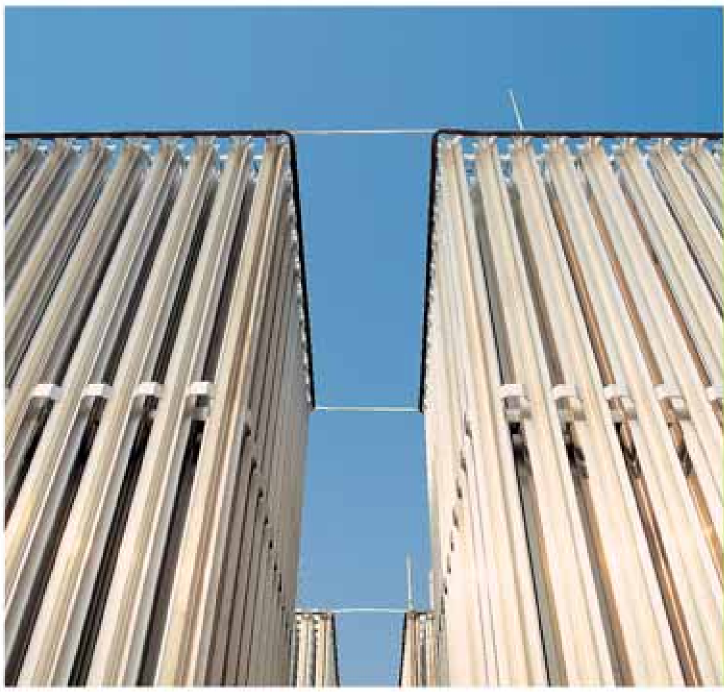
The Group has engaged in the investment of DME project in Inner Mongolia, it will commence production in 2009, with an annual production capacity of up to

400,000 tons.

The PRC government is planning to build more than

10

LNG terminals in coastal cities in China



We sold

1.76 billion m^3

natural gas in 2007

THROUGH DEVELOPING INNOVATIVE BUSINESS MODEL & EXECUTING EXCELLENT DISTRIBUTION PLAN, WE BELIEVE THE GROUP WILL HAVE EVEN MORE BRIGHT PROSPECTS.

WANG YUSUO
Chairman

RESULTS OF THE YEAR

After achieving encouraging performance in last year, the Group continued to record substantial growth in its results. The turnover and profit for the year reached RMB5,756,270,000 and RMB706,144,000 respectively, representing increases of 69.5% and 45.9% over last year respectively. Earnings per share increased by 26.7% to RMB51.3 cents.

This year, the Group secured 5 new city piped gas projects, thus raising the number of secured projects by the Group in Mainland China to 69, of which Zhejiang Province, Fujian Province and Henan Province each added one additional project while another 2 new projects were located in Anhui Province. Our total connectable population coverage was also on the rise, reaching 40,294,000. On the other hand, the Group also actively developed its vehicle refuelling stations business and established 32 new vehicle refuelling stations during the year, among them one was a dimethylether ("DME") station. As at the end of 2007, the number of vehicle refuelling stations operated by the Group was 89 and the proportion of gas sold in the vehicle segment as compared to the total volume of gas sold amount to 8.5%. The Group believes that the vehicle refuelling stations business is on a track of rapid and steady growth and will further secure the Group's future sales volume and sales income.

During the year, the Group completed piped natural gas connections to 580,876 residential households and 2,115 commercial/industrial ("C/I") customers (connected to gas appliances with total installed designed daily capacity of 2,212,639 cubic meters). As of the end of 2007, the accumulated number of residential households and C/I customers of natural gas were 2,749,352 and 8,206 (connected to gas appliances with a total installed designed daily capacity of 6,930,934 cubic meters) respectively, and the accumulated number of residential households and C/I customers of all piped gas were 3,167,800 and 8,869 (connected to gas appliances with a total installed designed daily capacity of 7,594,338 cubic meters) respectively. The sales volume of natural gas for the year grew tremendously by 78.4% as compared to last year to 1,757,891,000 cubic meters. Such increase fully demonstrated the benefits of the economies of scale, the robust development of the Group's business as well as our achievement in vigorously raising the penetration rate of our existing gas projects.

FINANCIAL POSITION

As at 31 December 2007, the Group's cash on hand was equivalent to RMB1,693,459,000 (31 December 2006: RMB1,567,552,000), and its total debts was equivalent to RMB5,054,324,000 (31 December 2006: RMB4,022,936,000). Its net gearing ratio, i.e. the ratio of net debt to equity (excluding minority interests), was 90.0% (31 December 2006: 80.3%). With the abundance of gas supply and the increase of customers from different segments, income from gas sales has become our major source of income and it is expected that the proportion of income from gas sales will further increase in the future. As more projects moved into full gear, income from gas sales will play a more important role in terms of revenue contribution to the Group. Such optimised income structure will create long-term and stable cash flow for the Group, the Group also has sufficient financial resources to pursue sustainable development.

CORPORATE MANAGEMENT

During the year, the Group continued to carry out informatisation in full swing with 7 gas companies implementing the Enterprise Resource Planning ("ERP") system and our customer caring and services system going online. These systems have achieved stable and expected performance and were wholly endorsed by the management consultation organ.

In order to ensure the thorough and effective implementation of the Group's strategies, the Group has jointly developed the strategic performance management project with Egate Infotech Company Limited last year. We have also established the balanced score card report and evaluation system and system flow. Under such system, we will review and communicate on the benchmarks and the progress of our action plans quarterly and will further our effort on the monthly review of the Group's action plans. The introduction of the strategic performance management project and the optimisation and the implementation of the balanced score card management system have largely facilitated the execution of our strategies. Such project has delivered fruitful results. In the course of project implementation, we have optimised the Group's strategy, modified the manner in which strategic orders are disseminated and circulated, identified the strategic responsibilities for different level of staff, formulated an efficient measure to evaluate the execution of our strategic planning, strengthened the strategic coordination between different departments and as such worked out the best solution to implement our strategies efficiently.

INTERNATIONAL AWARDS

During the year, the Company was elected as one of the "Global Chinese Enterprises 1000" by Yazhou Zhoukan and this marked the seventh consecutive years that the Company was awarded by this prestigious magazine. Our Annual Report 2006 was also awarded "Honorable Mention, Best Annual Report Awards" and the fact that the annual report of the Company was again awarded as an outstanding report since 2006, which has fully evidenced the accurate and clear disclosure in our reports and our effective communication with our shareholders. These rewards also reflected the recognitions of investors and professional institution towards our management quality and high level of transparency. Our management will endeavor to maintain such precious achievement and make effort to gain more successful achievement and recognition.

HUMAN RESOURCES

As at the end of 2007, the Group had 14,800 employees (2006: 13,355 employees). In addition to the increasing number of gas projects, the Group has also increased its manpower to meet the demand arising from various gas construction projects and energy logistic business.

The Group has adhered to its principle of "people-oriented" and believed that the healthy development of its staff is essential to the delivery of satisfactory services to customers. The Group always considers its staff as the most valued assets and understands that human resources is the vital source of competitiveness and indispensible element of our future success and sustainable development. Therefore, we put great emphasis on recruitment and internal training and offer learning and studying opportunities to employees as a kind of benefits and rewards. The Group encourages employees to have lifelong learning, formulates practical and tailor-made career development plans for employees and creates open career paths for them, which in turn ensures an adequate talent pool and human resources base for the Group's future sustainable and healthy development.

During the year, the Group has, in addition to implement its development strategy, optimised our staff employment qualification system and career development plans through the introduction of personal score card and further tailored our appraisal and promotion mechanism. We have also strengthened personnel management, organisation management, appraisal management and recruitment management with the help of our informatised projects, which has not only facilitated and solidified our human resources management system, but also has made it more transparent and personalised.

PROSPECTS

The rising global demand for energy and the growing emphasis on environmental protection both help encourage the promotion and use of clean energy. Under such global trend, China's energy industry has to establish a solid foundation through the thorough implementation of a scientific perspective and on such basis achieve the target of building up a stable, economic, clean and safe energy supply system. In order to support the robust and rapid development of the national economy, China's energy industry, on one hand has to increase energy supply and achieve a breakthrough in the bottleneck of energy development while on the other hand, has to make massive effort to adjust and optimise the energy structure and speed up the technology advancement of the industry. In recent years, the pace of development of China's energy sector has obviously accelerated and at the same time the nation is enjoying a more secure energy supply. The Chinese government has also taken the initiative in introducing a series of new ideologies and measures, adjusting the energy structure and putting the country's energy sector on the track of sustainable development.

As the Chinese government speeds up its program of establishing an efficient energy utilisation and environmental friendly society, the state will in no doubt put more emphasis on the promotion and application of clean energy and alternative energy and adopt energy conservation and emission reduction as its primary national policy. During the year, the National Development and Reform Commission ("NDRC") has formally promulgated the "Natural Gas Utilising Policy" with the approval of the State Council of the PRC on 30 August 2007 with a view to alleviating the issue of supply shortage of natural gas, optimising the usage structure of natural gas and encouraging energy conservation and reduction in emission. After taking into consideration of factors such as the social, environmental and economic benefits delivered by the usage of natural gas, the newly promulgated policy categorised the utilisation of natural gas into four classes, namely the priority class, the allowed class, the restricted class and the prohibited class, of which the daily usage of urban population, the usage of gas by public utilities and natural gas vehicle are categorised into the priority class and implying that our target customers are basically of the same category. Apart from this, the NDRC has formulated a series of practical security measures concerning the usage of natural gas, which fully demonstrated the vision of the Chinese government in respect of the utilisation of natural gas resource. It is believed that with the encouragement and support of the said measures, the Group is well positioned to secure gas sources and attract new customers.

It is not difficult to conclude that natural gas will become the major fuel in urban gas market in the PRC given that China's demand for natural gas is on the rise, the energy consumption structure is further improving, the urbanisation ratio is climbing every year and the PRC government has put more emphasis on environmental protection. According to the "Natural Gas Pipeline Network and the Eleventh Five Year Plan" issued by the Chinese government, during the period from 2006 to 2010, China will basically complete the construction of a preliminary national natural gas pipeline network with designed length of 16,000 km. Such national natural gas pipeline network will then be further improved to secure the safe and reliable supply of natural gas. In particular, the commencement of construction of the second West-East Pipeline and Sichuan-East Pipeline which connect the eastern and western region of China this year will further secure the gas supply of the Group.

In order to realise the Group's long term development strategies, we have always put top priority on the stable and reliable supply of clean energy and consider such service as the most important element for the Group's development. On top of the full utilisation of long distance pipeline in the PRC, the Group has also actively explored gas sources by self production and has sought to develop international energy trading. The coal chemical project located in Inner Mongolia and which the Group first participated in investment and construction in 2006, has progressed smoothly this year. Next year, such project will produce 400,000 tons of DME annually and as a new energy to be widely used. With a view to developing international energy trading, the Group has also established Xinao Energy Trading Company Limited last year and obtained the rights of import and export of natural gas, LPG and various kinds of gas materials. In June 2007, the Group struck the first deal concerning the international trading of LPG and succeeded in importing 10,000 tons of LPG. Besides enhancing the development of the Group's energy trading business, such move has also fully demonstrated our capability in securing energy resources through international trading and serves to further secure the Group's gas sources.

After recording rapid growth in the past few years, the Group has consolidated its leading position in the industry in terms of customer base and market position. Besides, benefiting from our strenuous effort devoted in the past few years to promote connection services and develop industrial users and gas vehicle refuelling station businesses, both characterised by large volume of gas consumption, the Group's income structure has largely improved and this could be seen by the increasing income contribution from gas sales which is more stable and reliable in nature. As at the end of 2007, income attributable to gas sales has increased to account for over half of our overall income, rising from 56.1% in 2006 to 64.9% while the share of one-off income attributable to connection fee as compared to the Group's overall income has diminished, dropping from 39.9% in 2006 to 33.4%. Such superior income structure not only strengthened our profitability and cash flow, but also confirmed that the Group is developing into a real public utilities company. In addition, as at the end of 2007, the overall penetration rate of the Group was 23.6%, lagging far behind the peak gas penetration rate of over 80%, thus showing that there is great scope of development for the Group to attract new customers and increase its gas sales.

In 2008, the Group will continue to enhance its management standard through its informatisation and strategic performance appraisal management projects and deliver more satisfactory and comprehensive services to its customers by adhering to its customer oriented principle. We will also endeavor to ensure our business is operated in a safe manner by establishing a secure and safe working environment and fully standardising our operation. In order to further improve our results in the piped gas segment, we will take initiatives to participate in the consolidation of the industry and optimise the structure of our projects. Besides focusing on enhancing and consolidating our leading position in the industry, we will also make huge effort to enhance our core competitive strengths through the innovation of energy distribution model, development of energy distribution network, establishment of a strong terminal network and integration of service platform. The Group will also enhance its competitive advantage by utilisation of substitute energy and source our gas in international gas market. In addition, the Group will adapt to changes of national policy and transformation of the industry by taking a proactive stance to formulate new business model while establishing a distribution model through the provision of regional clean energy solution, and thereby becoming the provider of regional clean energy and energy saving solutions. For the coming years, we will continue to make contribution to China's environmental protection and energy sector and spare no effort to maximise the long-term benefits of our shareholders, customers, staff, society and enterprises.

WANG Yusuo
Chairman

22 April 2008

BROAD INCOME SOURCES

As of December 2007, our gas penetration rate is only 23.6%. Low penetration rate demonstrates very large growing potential in the future.

The gas sales contributed over

64.9%

of revenue, which make a perfect and long term revenue base.

PROJECT OPERATIONAL DATA

Operational data as at 31 December 2007

	Operational Location	Year of Establishment	Length of existing pipelines (km)	No. of existing natural gas processing stations	Daily capacity of existing natural gas stations (m^3)
1	Langfang/廊坊	1993	354.2	3	410,000
2	Liaocheng	2000	433.1	2	100,000
3	Miyun	2000	177.6	3	168,000
4	Huludao (3)	2000	208	1	30,000
5	Xingcheng	2002	–	–	–
6	Pinggu	2001	129.5	1	72,000
7	Huangdao	2001	270.3	1	72,000
8	Changping	2001	118.7	1	102,000
9	Zhucheng	2001	122.8	–	–
10	Chengyang	2001	241.2	3	400,000
11	Yantai Development Zone	2001	10.4	1	30,000
12	Yantai	2004	398.1	2	340,000
13	Gaoyou	2001	40	1	4,600
14	Bengbu	2002	203.9	1	96,000
15	Zouping	2002	53.2	1	130,000
16	Taixing	2002	101	2	396,000
17	Laiyang	2002	140.9	1	72,000
18	Yancheng	2002	156.7	1	30,000
19	Huaian	2002	207.9	2	70,000
20	Haian	2002	61.6	1	4,000
21	Chuzhou	2002	247.7	1	270,000
22	Luan	2003	94.6	1	60,000
23	Rizhou	2002	188.8	1	300,000
24	Xinxiang	2002	287.2	1	500,000
25	Xinghua	2002	48	1	50,000
26	Bozhou	2003	72.1	1	46,000
27	Haining	2002	133	2	396,000
28	Quzhou	2002	101.7	3	280,000
29	Shijiazhuang	2002	465	1	602,000
30	Chaohu	2003	54.8	1	120,000
31	Lanxi	2003	19.3	–	–
32	Wujin	2003	607.5	2	430,000
33	Jinhua	2003	74.3	2	210,000
34	Wenzhou	2003	51.2	1	120,000
35	Longwan (4)	2004	–	–	–
36	Xiangtan	2003	146.2	2	180,000
37	Dongguan	2003	482.5	3	384,000
38	Lianyungang	2003	341	2	200,000
39	Changsha	2003	768.7	6	1,633,250
40	Kaifeng	2003	533.4	1	100,000
41	Jiaozhou	2003	124.1	1	40,000
42	Zhuzhou	2003	266.1	2	100,000
43	Jiaonan	2003	179.5	1	120,000
44	Tongliao	2004	53	1	50,000
45	Gulin	2004	110	–	–
46	Huzhou	2004	119.1	1	620,000
47	Zhanjiang	2004	176.2	1	360,000
48	Luquan	2004	19	1	1,800,000
49	Shangqiu	2004	89.8	1	240,000
50	Shantou	2004	45.8	1	160,000
51	Guigang	2004	55.4	1	100,000
52	Huangyan	2005	76	–	–
53	Yongkang	2005	59.4	1	120,000
54	Zhaoqing Development Zone	2005	9	1	25,000
55	Xianyang	2001	369.6	1	410,000
56	Luoyang	2006	697	2	1,000,000
57	Quanzhou	2006	178.5	5	5,000,000
58	Xiaoshan	1994	169.8	–	–
59	Fengyang	2005	1	–	–
60	Nanan	2006	19.1	–	–
61	Huian	2006	23.6	–	–
62	Shishi	2006	23.5	–	–
63	Jinjiang	2006	59.4	1	72,000
64	Laian	2006	11.9	–	–
65	Ningbo	2007	141	–	–
66	Quanjiao	2007	22.2	–	–
67	Guzhen	2007	–	–	–
68	Dehua	2003	56	1	24,000
69	Xinan	2007	–	–	–
	Other project				
	Shanghai (CNG)	2002	–	–	–
	Shanghai (LPG)	2007	–	–	–
	Shanghai (DME)				
	Other gas refuelling projects				
	Total		**11,301.1**	**83**	**18,648,850**

Notes:

(1) Some operational locations are operated by two companies to separate the pipelines construction business and gas distribution business. The combined data of the companies in each operational location is shown in this table.

(2) Existing pipelines consist of intermediate pipelines and main pipelines.

Accumulated number of piped gas customers (including natural gas)			
Residential Households	Commercial/industrial Customers (sites)	Installed designed daily capacity for C/I customers (m^3)	Number of vehicle gas refuelling stations
117,774	551	342,003	3
70,888	246	74,262	1
30,482	109	97,570	–
85,865	192	85,476	–
–	–	–	–
18,231	89	60,508	–
68,500	100	176,383	–
29,650	185	51,236	–
26,346	52	10,862	–
65,668	129	109,343	–
–	1	12,000	–
191,544	327	307,926	3
–	78	8,069	–
74,537	130	219,123	4
13,423	34	22,289	–
15,755	114	67,203	–
27,684	38	23,698	1
51,531	215	178,051	1
63,955	97	82,312	2
10,502	78	22,506	–
36,474	100	167,466	1
30,314	48	9,347	1
33,051	54	38,977	–
110,911	363	184,145	3
7,736	65	8,714	–
11,480	43	10,026	1
17,180	54	65,759	–
28,671	54	27,689	–
369,426	326	444,680	12
18,601	69	15,207	1
4,199	16	3,412	–
50,159	392	555,128	1
28,988	88	37,175	–
6,684	22	41,731	–
350	–	–	–
78,406	190	111,948	1
115,528	496	364,465	2
93,398	190	126,987	2
294,952	635	806,729	–
124,022	679	142,838	–
25,914	55	74,929	–
163,827	491	753,860	2
18,678	18	33,411	–
24,181	30	110,456	–
32,892	47	21,765	–
26,584	59	65,509	1
27,451	103	37,471	1
4,016	1	70	–
16,446	47	8,959	1
19,650	53	22,082	–
7,260	39	26,982	–
18,733	39	8,894	–
4,841	38	32,983	–
308	5	52,165	–
136,251	350	410,316	3
84,799	434	649,015	1
7,311	12	13,396	–
58,630	41	18,500	–
17	4	65,750	–
60	3	43,000	–
1,874	8	12,435	–
1,052	6	1,870	–
3,520	26	14,450	–
1,117	3	2,600	–
47,112	158	2,999	–
199	–	–	–
–	–	–	–
–	–	–	–
–	–	–	–
–	–	–	4
–	–	–	28
			1
			7
3,167,800	**8,869**	**7,594,338**	**89**

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

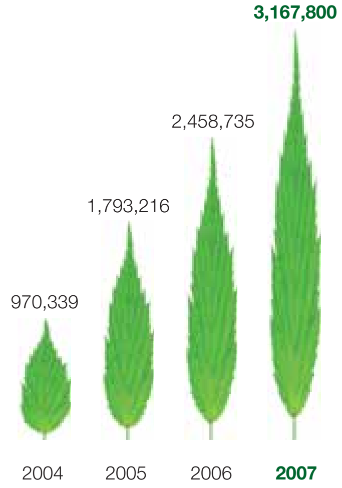
(4) The project in Longnan is operated by Wenzhou Xinao. The operational data is included in Wenzhou.

OPERATIONAL AND FINANCIAL SUMMARY

OPERATIONAL

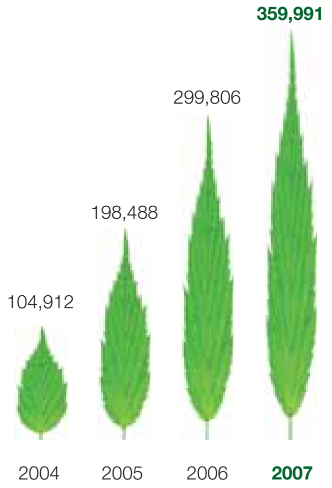
Accumulated Number of Piped Gas Residential Households

Number of households



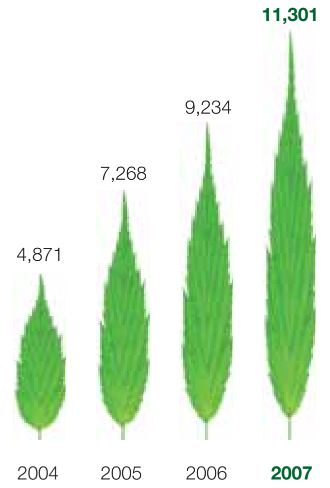
Units of Piped Gas Sold to Residential Households

’000m^3



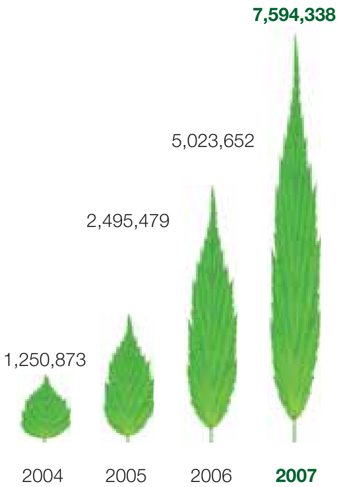
Length of Existing Intermediate Pipelines and Main Pipelines

km



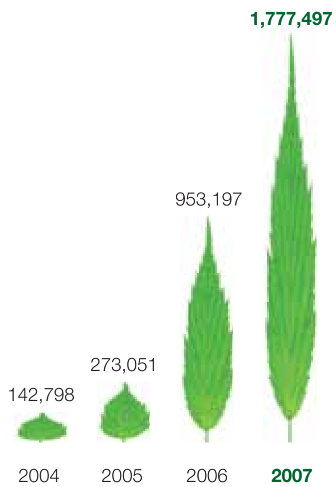
Accumulated Installed Designed Daily Capacity for Commercial/Industrial Customers

m^3



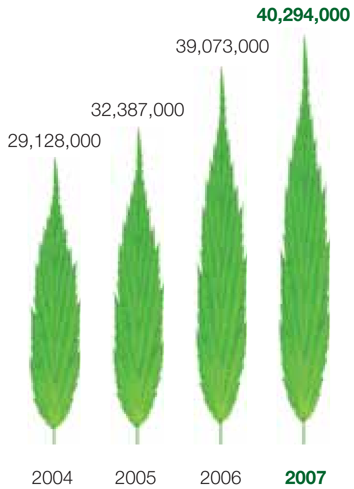
Units of Piped Gas Sold to Commercial/Industrial Customers

’000m^3



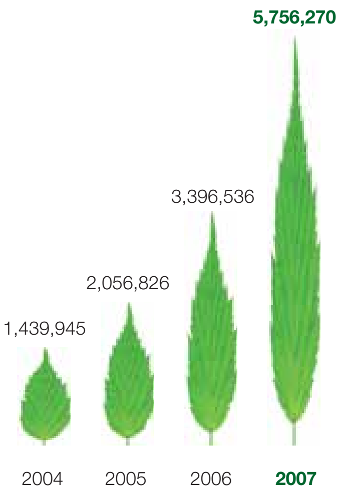
Coverage of Connectable Urban Population

Persons



FINANCIAL

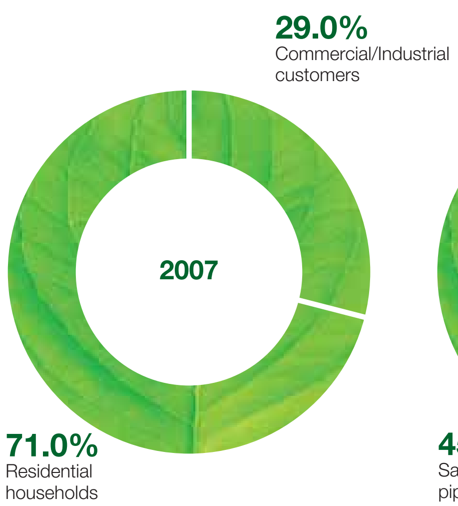
Turnover
RMB'000

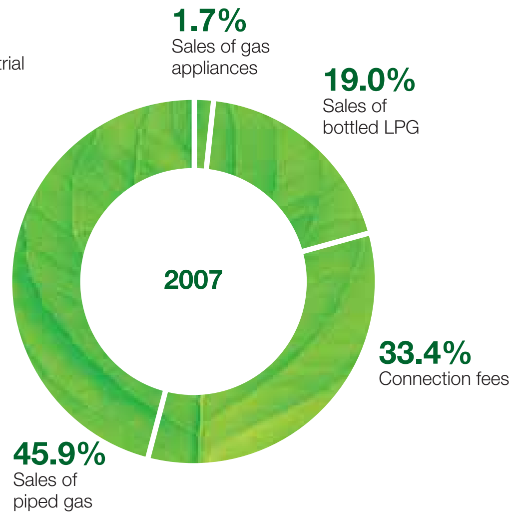


Turnover Breakdown by Customer

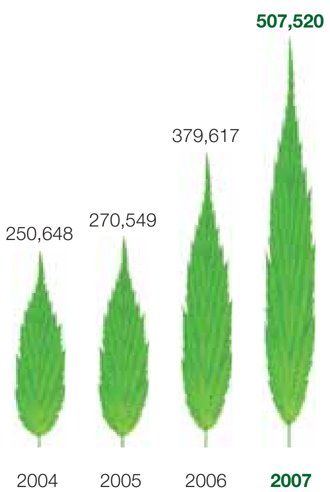
Turnover Breakdown by Segment

Connection Fees

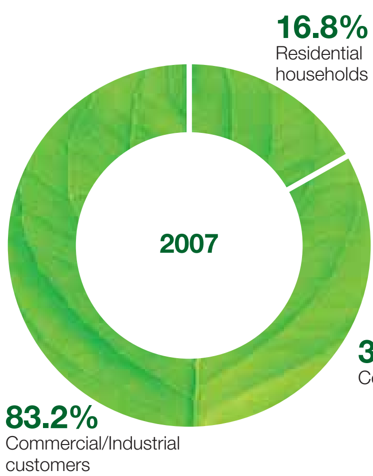


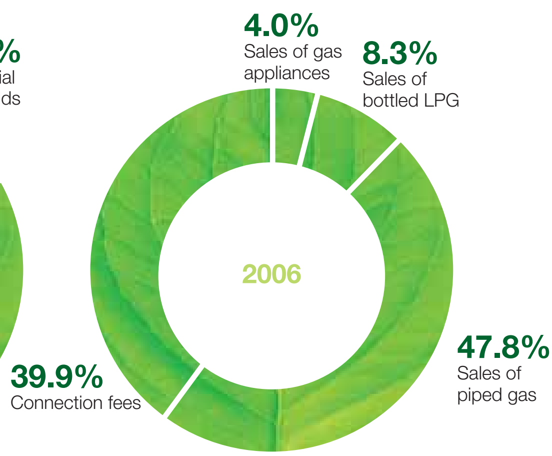


Profit Attributable to Shareholders
RMB'000



Sales of Piped Gas





ENERGISE THE GROWTH

The Group has commenced to CNG vehicle refuelling stations business since 2002. With the past few years' effort sales volume to vehicles in 2007 increased 79.7% compared with last year.

As of December 2007, the Group has **89** gas vehicle refuelling stations in 27 cities

COMPARISON OF NINE-YEAR RESULTS

	2007	2006 (Restated)	2005
Highlights (Group)			
Number of connected households (Piped Gas)	**3,167,800**	2,458,735	1,793,216
Installed designed daily capacity for commercial/industrial customers (m^3) (Piped Gas)	**7,594,338**	5,023,652	2,495,479
Units of piped gas sold			
Residential households (m^3)	**359,991,000**	299,806,000	198,488,000
Commercial/industrial customers (m^3)	**1,777,497,000**	1,027,939,000	273,051,000
Length of existing pipelines [(1)] (km)	**11,301**	9,234	7,268
Number of natural gas processing stations	**83**	74	64
Daily capacity of existing natural gas processing stations (m^3)	**18,649,000**	13,563,000	8,786,000
Turnover & Profit (RMB'000)			
Turnover	**5,756,270**	3,396,536	2,056,826
Profit before taxation	**814,517**	533,632	400,540
Taxation	**(108,373)**	(49,772)	(38,343)
Profit for the year	**706,144**	483,860	362,197
Minority interests	**(198,624)**	(104,243)	(91,648)
Profit attributable to equity holders of the Company	**507,520**	379,617	270,549
Dividends	**126,880**	75,923	45,440
Assets & Liabilities			
Non-current assets	**8,176,070**	6,329,211	4,390,976
Associate	**386,111**	340,173	76,571
Jointly controlled entities	**483,672**	295,530	235,432
Current assets	**3,504,285**	3,070,092	2,851,725
Current liabilities	**(3,957,481)**	(2,699,439)	(1,683,310)
Non-current liabilities	**(3,931,999)**	(3,467,139)	(3,112,245)
Net assets	**4,660,658**	3,868,428	2,759,149
Capital & Reserves			
Share capital	**106,318**	102,825	95,819
Reserves	**3,629,229**	2,953,835	2,135,667
Equity attributable to equity holders of the Company	**3,735,547**	3,056,660	2,231,486
Minority interests	**925,111**	811,768	527,663
	4,660,658	3,868,428	2,759,149
Earnings per share	**51.3 cents**	40.5 cents	30.5 cents

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

2004	2003	2002	2001	2000	1999
970,339	650,411	210,850	108,001	66,253	30,607
1,250,873	631,493	365,113	269,747	139,302	104,026
104,912,000	44,967,000	19,123,000	14,089,000	5,645,000	2,893,000
142,798,000	71,626,000	30,407,000	20,496,000	11,259,000	8,890,000
4,871	1,958	791	464	257	143
51	35	25	12	7	2
7,493,000	4,709,000	3,178,000	837,800	561,800	100,000
1,439,945	878,055	544,492	240,560	122,270	52,923
313,108	199,242	156,058	99,598	50,370	25,572
(9,196)	(2,957)	(12,324)	(11,081)	(6,976)	(3,836)
303,912	196,285	143,734	88,517	43,394	21,736
(53,264)	(13,195)	(15,818)	(9,250)	(6,018)	(6,653)
250,648	183,090	127,916	79,267	37,376	15,083
25,254	–	–	–	30,529	–
3,013,077	2,104,824	925,307	415,824	260,999	96,920
61,025	10,394	–	–	–	–
170,499	22,105	2,500	–	–	–
1,608,829	960,602	842,558	307,481	174,032	161,784
(1,261,830)	(1,032,785)	(456,841)	(201,195)	(334,507)	(147,667)
(1,230,748)	(587,594)	(276,030)	(51,945)	(20,915)	(15,000)
2,360,852	1,477,546	1,037,494	470,165	79,609	96,037
91,954	78,122	78,122	66,462	–	–
1,830,610	1,059,977	861,355	386,199	69,830	57,393
1,922,564	1,138,099	939,477	452,661	69,830	57,393
438,288	339,447	98,017	17,504	9,779	38,644
2,360,852	1,477,546	1,037,494	470,165	79,609	96,037
29.6 cents	24.8 cents	18.0 cents	14.3 cents	8.9 cents	3.6 cents

MANAGEMENT DISCUSSION AND ANALYSIS

The group will further increase gas sales by signing up more commercial/industrial ("C&I") users. In 2007, new connection (installed designed daily capacity) to C&I users increased 2,212,639m^3 to accumulative 7,594,338m^3.

INDUSTRY REVIEW

Energy consumption pattern in the PRC

Energy is the essential material foundation for the development of society and economy; therefore energy structure has important and far-reaching impact on the overall economic structure. As China's economy continued its robust growth, energy resource has become an increasingly critical factor for the stable development of economy. The PRC government adhered to the principles of distinct treatment and undertook differential approaches for different industries in its macro-economic control measures. Besides, the state has also considered accelerating energy development as a strategic measure to optimize China's energy structure and implemented different measures to enhance the healthy and rapid development of the country. During recent years, Chinese government has introduced a series of innovative ideology and measures and has taken initiatives in adjusting the energy structure with an aim to securing the sustainable development of China's energy sector. In order to further optimize China's energy structure, the Chinese government will employ a dual strategy of encouraging the steady development of coal and oil industry while at the same time, speeding up the development of natural gas, hydro-electric power, nuclear power, wind electric power and bio-energy. Under such circumstances, the development of new energy and renewable energy is set to sustain.

GOOD SAFETY TRACK RECORD, EXPERIENCE AND ADVANCED DEVELOPMENT STRATEGY ARE ASSETS IN SECURING MORE GAS SOURCES AND SIGNING UP NEW CUSTOMERS.

It is estimated that total primary energy production of China in the current year amounted to 2.37 billion tons standard coal, up 64.6% as compared to 2002. Raw coal and crude oil sectors also recorded a growth of 75.9% and 12.0% respectively while the total amount of installed capacity for electric power equipment has topped 700 billion watts with newly installed capacity leveling the aggregate installed capacity achieved in the past five decades spanning from the birth of new China to 2002. The issue of supply shortage of coal and electricity has been alleviated as could be demonstrated by the drastic drop of cases of power stoppage from 1.24 million recorded in peak year to 12,000 in the current year. These encouraging figures indicate that our energy resources are decently fueling the development of our economy and society.

However, the share of coal in China's primary energy production and consumption structure remains high, reaching 76.0% and 68.9% respectively in 2005. China has the highest coal consumption ratio in the world and such coal-oriented consumption pattern has put much pressure on the environment. With the increasing shortage of quality energy such as natural gas, the "Eleventh Five-Year" Plan has set up a target that by the end of the "Eleventh Five-Year" Plan, energy consumption per 10,000 RMB GDP will reduce by 20% as compared to that recorded in 2005. The enhancement of energy efficiency and the realisation of environmental governance have brought new challenges to China's current energy structure.

China's production volume of natural gas reached 69.31 billion cubic meters in 2007 while new gas fields have already been discovered in different regions including Sichuan Basin, Songliao Basin, Erdos Basin and Tari Basin. It is expected that in the next ten years, China's yearly production volume of natural gas will top 150 billion cubic meters and the target of increasing the ratio of natural gas consumption as compared to the overall energy consumption from 2.5% in 2005 to 7% in 2010 will be achieved. China will devote more resources on the construction of natural gas infrastructure in the future and that includes the construction of 50,000 km natural gas pipeline and the establishment of about 10 LNG terminals in Yangtze River Delta, Bohai Bay region and Pearl River region, making 50 million tons liquefied natural

DEVELOPING EFFICIENT AND CLEAN ENERGY HAS BEEN AN IMPORTANT MEASURE IN SUPPORTING SOCIAL ECONOMIC DEVELOPMENT OF THE PRC

gas ("LNG") receiving facility. China's natural gas consumption will continue to rise and reach 220 billion cubic meters in 2020.

In future, China's natural gas consumption pattern will further improve and it is estimated that China's demand of natural gas will amount to 140 billion cubic meters in 2010. Urban gas utilization and power generation are set to be the two principal sources of consumption of natural gas and their shares are expected to rise to 35% and 27% respectively in 2020. Natural gas will gradually become the major fuel in the urban gas market in the PRC while urbanization ratio will increase from the existing level of 43% to 55%–60% in 2020, therefore providing tremendous scope for sustainable development for urban gas projects. At present, gas power generation merely accounts for 2% of the total volume of power generated and thus, natural gas and nuclear power will gain wider application in the future.

PRC policies on city piped natural gas market

Since the State Council of the PRC issued the "Opinions on Encouraging the Development of Non-state-owned Economy" in 2005, China's urban gas industry is on a track of stable and robust development. During the year, the Chinese government has also highlighted the importance of "developing clean energy" and encouraged "the establishment of a scientific and reasonable energy resource consumption system to increase the utilization efficiency of energy resource" in the 17th National People's Congress.

The National Development and Reform Commission ("NDRC") has formally promulgated the "Natural Gas Utilising Policy" on 30 August 2007 with the approval of the State Council of the PRC with a view to alleviating the issue of supply shortage of natural gas, optimising the consumption structure of natural gas and encouraging energy conservation and reduction in emission. The "Natural Gas Utilising Policy" emphasised that urban gas consumption should be given priority in respect to natural gas usage and encouraged the scientific usage and organised development of natural gas. Natural gas vehicle (in particular dual-fuel vehicle) was also listed as a priority development item.

We will actively explore new products, market and business in clean energy industry, and continuously developing new business growth areas to increase customer satisfaction and create additional value for our shareholder.

On 3 December 2007, the State Energy Office issued the "Energy Law of the People's Republic of China" (Solicit Opinion Draft), which placed greater importance on clean energy in China's national energy development policies. It stated that: "On the basis of ecosystem protection, the state encourages the development of clean and low carbon energy such as hydro-electric power, nuclear power, natural gas, coal bed gas, wind electric power, bio-energy, solar energy, geothermal energy and oceanic energy and will endeavor to increase the share of clean energy in the overall energy consumption structure." The said document also clearly defined clean energy as "the primary energy that has zero or low emission of pollutants and greenhouse gas such as carbon dioxide, which mainly includes natural gas, nuclear energy, hydro-electric power and other new energy and renewable energy."

Since the Chinese government introduced economic reform, the national economy has developed rapidly and various projects have also achieved cheering results, but such achievements come at the cost of tremendous resources and environmental burden. The increasingly serious conflict between economic development and environmental protection is directly related to the irrational economic structure and extensive mode of economic growth. In order to establish a resource-conserving and environmental friendly society, adjust the economic structure and transform the mode of economic growth, the country has to develop in a conserving, clean and safe manner and only by this means could the target of achieving healthy and rapid economic development be materialized. At the same time, greenhouse gas emissions are threatening the global climate and such issue has aroused international concern. In the face of this alarming problem of global warming, the Chinese government has further tightened its control towards energy conservation and emission reduction during the year. This measure is coherent with the social responsibility to which the Group always adheres and it is believed that under the requirements of these policies, the Group will achieve greater result in its future development.

BUSINESS REVIEW

The principal businesses of the Group are the construction of gas pipelines, the sales of piped gas, the operation of natural gas vehicle refilling station, the sales of bottled liquefied petroleum gas ("LPG") and the sales of gas appliances.

Construction of gas pipelines

Since the Group adjusted its development strategies in 2005 and focused on boosting connection in existing gas projects, the overall connection rate has increased considerably while gas sales has also become the major source of income of the Group.

As at 31 December 2007, the gas penetration rate for residential households of the Group has increased from 18.9% at the end of 2006 to 23.6%. With the rapid growth in number of users, in particular C/I and vehicle customers, the share of gas sales as compared to the Group's overall income keep rising and in contrary, income attributable to one-off connection fee further dropped to 33.4% of the overall income. The Group believes that this optimised income structure will secure the long-term stable income of the Group.

Development of residential customers

During the year, the Group provided natural gas connections for 580,876 residential customers, up 28.8% as compared with the cases of new connection recorded last year. As at the end of 2007, the aggregate number of residential customers subscribing our natural gas services amounted to 2,749,352. When residential customers of other piped gases were included, the piped gas residential users reached 3,167,800. Supported by the level of urbanisation and organic growth population in its existing project cities in 2007, the Group extended its population coverage to 40,294,000 for the year. According to past experience in the industry, the penetration rate of urban pipeline residential customers could increase to over 80%, as such there exists vast scope for development in the residential customer market. The continual and massive growth in number of residential customers each year fully demonstrated the Group's capability in raising the penetration rate of target cities. During the year, the average one-off connection fees collected by the Group from its residential customers was 2,570.

Factors that contributed to stimulate the stable yearly increase of penetration rate of the Group include the rising popularity of natural gas among consumers arising from the explicit advantages of natural gas comparing with other energy in terms of economic benefits, safety, convenience and environment impact; the enhancement of auxiliary natural gas facilities of new and existing buildings under the further optimization of domestic long distant pipelines and gas sources; and the monopolized nature of the gas pipelines of the Group in cities.

Development of Commercial/Industrial Customers

Currently, raw coal still plays a dominant role in the primary energy consumption pattern of the PRC, its primary usages include power generation, boiler heating and warming and it is also used as a raw materials for producing chemical products. But due to its highly polluting nature, local governments are limiting or prohibiting the direct usage of raw coal. Other types of energy such as oil and LPG are far more inferior to natural gas on environmental and economic aspects. Coupled with the fact that the Chinese government has put much emphasis on energy conservation and emission reduction in its urban development policies and used this as a critical evaluation standard for local government and hence, as an efficient and clean source of energy, natural gas will definitely gain more popularity among customers.

As local government in the PRC took a more stringent stance in the implementation of environmental policies, an increasing number of local governments have required newly established industrial and commercial projects to use clean energy. Besides, enterprises were also required to modify their coal boilers into natural gas boilers and these developments all help encourage C/I customers to utilize natural gas.

Furthermore, the Group, together with International Finance Corporation (a member of the World Bank Group) ("IFC") and Industrial Bank, has launched the "China Utility-based Energy Efficiency Finance Program" ("CHUEE") last year to promote the use of clean energy among C/I customers. The program allows IFC to provide financial guarantee to Industrial Bank, and in turn Industrial Bank will offer loans to the C/I customers of Xinao Gas. The C/I customers may use the loans for paying connection fees, gas engineering fees and purchasing gas related equipments. During the year, a total of 34 C/I customers have received financial and technical support from IFC. After switching to clean energy, these customers have succeeded in reducing their carbon dioxide emission level by 93,557 tons during the year and made valuable contribution to environmental protection.

During the year, the Group provided natural gas connections for 2,115 new C/I customers (connected to gas appliances with a total installed designed daily capacity of 2,212,639 cubic meters), an increase of 49.3% as compared to new connections for the corresponding period last year. The average connection fee was RMB228 per cubic meter. As at the end of 2007, the Group has in aggregate provided piped natural gas connections for 8,206 C/I customers (connected to gas appliances of a total installed designed daily capacity of 6,930,934 cubic meters). When the figures of other piped gas were included, the Group has accumulated 8,869 C/I customers (connected to gas appliances with a total installed designed daily capacity of 7,594,338 cubic meters). The rapid growth of number of customers again demonstrated the robust development of China's natural gas market.

New Projects

During the year, the Group secured 5 new projects which were located in Qinzhou District in Ningbo City of Zhejiang Province, Quanjiao and Guzhen of Anhui Province, Xin'an of Henan Province and Dehua of Fujian Province respectively, thus increasing the number of urban gas project cities from 64 last year to 69 this year. The connectable population also grew to 40,294,000 (approximately 13,431,000 households) by the end of 2007. Projects secured this year were located in areas with a higher level of industrial and commercial development and this will support the growth of gas sales of the Group in the future. The addition of the Qinzhou District Project will further enhance the Group's scale of gas supply in Zhejiang Province while Xin'an, Quanjiao and Guzhen, all in close proximity to our existing projects, could help the Group to implement the strategy of making use of its existing projects to distribute clean energy to regions close by and fully utilise the resources of the existing urban gas projects. The Dehua Project is the sixth project the Group secured in Fujian Province and will further enhance the Group's market position and influence in Fujian Province.

Sales of piped gas

During the year, the Group's total sales volume of piped gas was 2,137,488,000 cubic meters, up 70.6% when compared with last year, and the share of piped gas sold to residential households, C/I customers and vehicle customers amounted to 16.8%, 74.7% and 8.5% respectively, representing an increase of 20.1%, 87.3% and 79.7% as compared with last year. Since the Group adjusted its development strategy and focused on increasing the gas penetration rate in 2005, the sales volume of piped gas has drastically increased for two consecutive years while gas sales has become the major source of income of the Group, reaching 64.9%. This demonstrated that the Group has now possessed a more stable and long-term income base, lessened its reliance on one-off connection fees and improved and optimised its income structure. On the other hand, the ratio of gas sales volume for C/I customers as compared to the overall gas sales volume has increased from 68.3% last year to 81.0% and this fully reflected the benefits brought about by the sustained and enormous effort of the Group to increase the large volume users and also demonstrated that the Group at present possesses a solid and long-term income base. As the Group continues to spare no effort to increase penetration rate and provide connection for C/I customers, it is expected that the share of income attributable to gas sales will further increase and such development will deliver long-term and stable cash flow to the Group.

Compressed natural gas ("CNG") vehicle refuelling station

As the Chinese government puts more emphasis on environmental protection and takes more stringent stance on the implementation of energy conservation and emission reduction policies, the use of clean energy by vehicle has become a growing trend. In addition, the overwhelming economic benefits of clean energy such as natural gas and DME as compared to vehicle-used gasoline and diesel has given immense momentum to the growth of the promising refuelling station business, the development of which has delivered significant contribution to both environmental protection and the Group's profitability. In this regard, the Group has listed refuelling station business as one of its business focuses this year and in the future based on its expectation of the bright perspective of China's vehicle gas refuelling station business.

In order to further expand this business and increase its market share, the Group has not only focused on developing its refuelling station business in its existing target cities through measures such as the conversion of 10,840 taxis and 521 buses into CNG vehicles, but has also penetrated markets of other regions. In 2007, the Group has obtained the construction approval of refuelling station from the local governments of Hengshui City and Tangshan City of Hebei Province, Hefei City of Anhui Province, Zibo City of Shandong Province, Xuchang City Hehui County of Henan Province, Nanning City of the Guangxi Autonomous Region and Shangrao City of the Jiangxi Province, thereby increasing the number of refuelling stations which the Group has obtained relevant approvals from various local governments by 48 and raising the total number to 260 and among which, 32 refuelling stations were constructed and have commenced operation during the year. As at the end of 2007, the number of vehicle refuelling station in operation has reached 89. The above developments have fully demonstrated the Group's capability in developing the refuelling station business and the brilliant perspective of this business.

In addition, the Group has collaborated with Shanghai Communication University and Shanghai Tongji University for a research on the development and application of alternative vehicle-used clean energy. In May 2007, the first vehicle-used DME refuelling station in the world was introduced in Shanghai and this achievement has broken a new path for the substitute of vehicle-used fuel and the sales of DME.

Gas source

China's natural gas industry will maintain its robust development. During the year, large-scale energy projects such as the second West-East Pipeline and Sichuan-East Pipeline were given the green light, the locations of long distance pipeline were fixed and the corresponding construction works have commenced. The completion and operation of such projects will further satisfy the increasing domestic demand for natural gas. In addition, the long distance natural gas pipeline constructed under these projects will connect large-scaled projects of the Group, which are located in Jiangsu, Zhejiang, Anhui, Guangdong and Henan. This will further guarantee that more projects of the Group will receive long-term and stable piped gas supply. With the continuous and rapid increase of proved reserve and production capacity of natural gas of the PRC since the 80s of last century, the accumulative proved onshore and offshore reserves of natural gas located in Sichuan and Xinjiang, Shaanxi Changqing, Qinghai and South China Sea have reached 2,660 billion cubic meters. Under the plan of the Chinese government, a nation-wide natural gas pipeline network will be established in the future.

Besides fully utilizing such extensive gas pipeline network, the Group has also endeavored to search for alternative energy. The project located in Inner Mongolia which we started our investment last year has progressed smoothly during the year and is expected to commence production next year, delivering 400,000 tons of new energy, DME. During the year, the Group has newly acquired 50 LNG transportation trucks and 50 CNG transportation trucks. Such move has raised the one-off maximum transportation capacity of the Group to 5,512,000 cubic meters, making us the largest onshore energy logistic transporting company in the PRC.

In addition, with an aim to securing stable gas supply, the Group has relied heavily on information technology and logistic informatisation system and made good use of advanced logistic system to master accurate gas sources storage and supply information in order to arrange gas sources supply scientifically and secure the continuous supply of gas sources.

Since Xinao Energy Trading Company Limited, a company under the Group has in last year acquired the rights for import and export of natural gas, LPG and various kinds of gas materials, it made the first shipment of imported LPG amounting to 10,000 tons from overseas in June 2007. Besides enhancing the development of the Group's energy trading business, such move has also fully demonstrated our capability in securing energy resources through international trading and served to further secure the Group's gas supply.

Advanced collection system for gas usage charges

The Group continues to adopt the prepaid stored-value card system for all projects. Under the system, every newly-connected residential customer will receive a stored-value card and is required to prepay for the gas. This system can totally eliminate the possibility of bad debts and save huge administrative expenses, thus enhancing the Group's cash flow.

Starting from 2004, some of the Group's project companies started to cooperate with local banks for collection of gas usage charges. The widespread network resources of the banks have fostered satisfactory results in gas usage charges collection. During the year, an increasing number of the Group companies have cooperated with local banks to launch this advanced system of charge collection. The Group has been benefited from the reduction of the corporate administrative expense whilst the local banks could utilise the Group's customer base for business development, which creates a win-win situation.

Sale of LPG

During the year, the Group sold 225,156 tons of LPG (2006: 58,136 tons), increased by 2.9 times over last year. The operating profit of LPG was RMB8,088,000 this year.

With the adjustment of the Group's development strategy, the boost of sales of LPG and the innovation of their business model have both become the essential elements of the Group's energy distribution model. Last year, the Group joined forces with Roland Berger Strategy Consultants Co., Ltd., a renowned consultation company, to develop the LPG strategic consultation project and on top of this collaboration; the Group has stepped up its effort in innovation during the year, rewarding result of which includes the establishment of a SAAS platform with central call center playing a major role. Such platform could effectively link the upstream purchasing activities, midstream manufacturing and storage activities and downstream wholesaling and distribution activities, thus increasing our efficiency and minimizing our operating costs simultaneously.

Sales of Gas appliances

Besides of offering piped gas connection services to our customers, the Group also sells cooking stoves, water boilers, heaters and stored-value card gas meters. The Group adheres to the strategy of producing its own stored-value card gas meters and the products were deployed for internal use in the Group's connection business as well as being sold to other gas distributors. Such measure could at the same time lower the cost of connection and generate additional income for the Group.

Gross and net profit margins

During the year, the Group's overall gross and net profit margins were 30.4% and 12.3% respectively, representing decrease of 4.4% and 1.9% as compared with last year.

The drops of gross and net profit margins were mainly attributable to the continuous changes of our income structure. The profit margin of connection fee is higher in comparison with that of piped gas sales and currently, the Group's major source of income is continuously switching from one-off connection fee to long-term piped gas sales. The share of connection fee has decreased from 39.9% in the corresponding period in last year to 33.4% whereas the share of gas sales has increased from 56.1% last year to 64.9%. Such changes have fully demonstrated the effect of the Group's strategy of reducing its effort in acquiring new projects and putting more emphasis on increasing the penetration rate of its existing projects while maintaining its rapid growth momentum. Another major reason for the decrease of net profit is the increase in effective tax rate of the Group from 8.7% last year to 14.0% and such tax rate will increase progressively until reaching the full tax rate of 25%. On 1 January 2008, the Chinese government implemented the policy of tax unification and reduced the full tax rate from 33% to 25%. Such policy could largely reduce the financial burden of most of the Group's sino-foreign gas projects when we are required to pay full tax after the expiry of tax holiday and create better operating environment for the Group. In addition, the Group has maintained good control of its administrative fee and sales expenses.

Advanced Safety Management System

In the previous year, the Group continued to maintain a good record of safe operation and insisted on placing safe operation as its top priority. During the year, the Group set up a health and safety and environmental management system suitable for the Group with reference to the standard requirements of the industry. At the same time, the Group launched the system of Risks Identification and Management, documentation, internal system training at all levels, pilot testing, internal and external audit in its four subsidiaries. It has successfully passed the on-site examination by China Oil Accreditation Company, and was awared the health, safety and environmental certification by China Oil Accreditation Company. Such certification would provide valuable experience for the full implementation of a health and safety and environmental management system in other subsidiaries.

Since 2003, the Group has made unremitting effort in undertaking the professional training and qualification recognition and cooperated with Utilise Training & Development Solutions Limited, a gas professional training centre, with an aim to enhance the professional qualification and expertise of the employees for providing better services to customers with reference to the safe operation standard of the UK gas industry. By providing Training and qualification ranging from Levels 1 to 4, the center has nurtured a batch of personnel of high caliber and helped enhance operational safety level and efficiency. During the year, the training center conducted 25 sessions of training courses, 410 employees have passed various qualifications examinations and the total number of technicians and operational personnel who have been awarded with the qualification was over 1800.

Outstanding Management

During the year, the Group further promoted the total IT solutions project. With the stable running of the SAP, the enterprise management software, for various subsidiaries, the Group has successfully put into operation an on-line customer service and care system and on-line work flow system. The Group has also opened a central call center and initiated a customer relationship management project. The Group continued to upgrade its management system and effectively reduced the cost of operation and management costs through the centralization and sharing of resources, information and values supported by the total IT solutions project. The result was highly recognized by the management advisory bodies.

To ensure effective communication of the Group's strategy and improve capability of the strategy execution, the Group instigated a strategic performance management project effectively during the year. The project emphasizes development of strategic solution capability, effective communication of the Group's strategies along the organization structure. Promotion of strategic performance management project was completed in 54 subsidiaries as scheduled during the year, and balanced score card reporting and evaluation system and procedure were set up.

During the year, the Company was elected as one of the "Global Chinese Enterprises 1000" by Yazhou Zhoukan and this marked the seventh consecutive years that the Company was awarded by this prestigious magazine. The Company's annual report was also awarded "Honourable Mention, Best Annual Report Awards". It had been the second time since it attained annual report award in 2006. Such award revealed that the Company's annual report had provided clear and accurate disclosure and had served the function of shareholder communication effectively. These awards also reflected the recognition of investors and professional institutions towards the Company's management quality and high degree of transparency. Our management will endeavor to maintain such precious achievement and make effort to gain more successful achievement and recognition.

Customer service

It is always the Group's belief that quality customer service is the key for maintaining good and long term relations between the Company and customers and the bedrock for the Group's sustainable business development. During the year, the project companies continued to acquire recognition and compliments from clients, including government authorities, in the cities it operated for its quality customer service, and 11 project companies have obtained awards like "Units with High Consumer Satisfaction" from the local consumer councils during the year.

Last year the Group has introduced services qualification framework (Level 2 and 3) with Utilise Training & Development Solutions Limited, a UK Company. During the year, 27 sessions of training courses were conducted and 878 participants joining the assessment gained the qualification, with an accumulated number of 1,478. Under the services qualification recognition framework, the customer services technique and professional service standard of employees have been improved, which in turn enhanced the quality of the Group's services.

At the same time, the Group launched a service-monitoring project called "Secret Customer". Inspectors would be deployed to conduct observation and on-the-site inspection at the designated areas in the capacity as a normal consumer. The inspector will evaluate on the inspection areas as a normal consumer and score will be made with respect to the level of satisfaction. The inspector would give comments and recommendations to the respective spots. Improvement shall be made at the spot on such basis.

In addition, all the project companies of the Group, required to visit customers for safety checks on customers' gas appliances twice a year. These measures, drawing on the concept of "prevention is better than cure", help to eliminate customers' worry on potential safety problems, and thus increase the trust of our customers.

Human Resources

The Group has regarded its staff as its most important assets and believes that staff could provide satisfying service to customers if they are offered the opportunity of healthy development. The Group strongly believes talents are the source of its competitiveness and the critical factor for success and future development. As a result, the Group attaches importance to recruitment and internal training. The Group also take great care to the new staff and provided them, with initial training and learning opportunity.

As its usual practice, the Group provided induction training as well as employee – caring programmes for newly recruited staff in order to enable them to master the business operation of the company and gain a deeper understanding of the Company's culture. The Group persisted in inviting well-known experts and professors around the world to provide two days of training every month to employees. In addition, we have sponsored some employees with development potential and work enthusiasm to further study in renowned local and overseas universities every year, so as to enhance their competence, professional skills and quality.

To maintain the vitality and passion of staff, the Group has implemented competitional promotion system, where outstanding young employees were screened through internal selection and open competition and would be promoted as management. Meanwhile, outstanding young employees were selected for rotary duties and on-the-job training, in order to assist them to grow rapidly The series of measures helped perfect the mechanism of executive selection, training and promotion and enhanced the vitality of the executive team.

As at 31 December 2007, the Group had 14,800 employees, of which nine were based in Hong Kong and the others were based in the PRC. They were remunerated at market level with benefits like bonus, retirement benefits, professional training, share option scheme, etc.

FINANCIAL RESOURCES REVIEW

Liquidity and financial resources

As at 31 December 2007, the Group's cash on hand was equivalent to RMB1,693,459,000 (31 December 2006: RMB1,567,552,000), and its total debts was equivalent to RMB5,054,324,000 (31 December 2006: RMB4,022,936,000). Its net gearing ratio, i.e. the ratio of net debt to equity (excluding minority interests), was 90.0% (31 December 2006: 80.3%).

Under the US$25,000,000 Loan Agreements with International Financial Corporation ("IFC") and the subsequent amendment, the Company, Mr. Wang Yusuo ("Mr. Wang") and the Borrowers (i.e. Bengbu Xinao Gas Company Limited, Shijiazhuang Xinao Gas Company Limited and Xiangtan Xinao Gas Company Limited, subsidiaries of the Company) have entered into the Share Retention Agreements with IFC on 18 May 2004 whereby Mr. Wang has agreed, according to the Loan Agreement and the subsequent amendment thereto, that so long as any monies remain due or to become due and owing by the Borrowers to IFC under or in respect of the Loan Agreements, he and Ms. Zhao Baoju ("Ms. Zhao") will own, in aggregate, directly or, at any time that he and Ms. Zhao own in aggregate all the shares of Xinao Group International Investment Limited ("XGII"), indirectly through XGII, at least 27% of the issued share capital of the Company. Mr. Wang and Ms. Zhao are the beneficial and legal owners of XGII, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. As at 31 December 2007, XGII and Mr. Wang together held 33.24% interests of the Company.

Five-year zero coupon convertible bonds

The Company issued five-year convertible bonds ("CB" or "CBs") in an aggregate principal amount of HK$550,000,000 on 15 November 2004. The CBs are zero coupon bonds; the issue price is 100% whereas the redemption price is 106.43%, which means that the effective interest rate is 1.25% per annum. Bondholders can exercise the conversion right between 15 December 2004 and 15 November 2009 and convert the CBs into ordinary shares of HK$0.10 each of the Company, and the Company has the option to issue share or pay cash in lieu of shares to such bondholders. The conversion price for each ordinary share at the issue date of the CBs was HK$5.4375.

During the year, HK$91,300,000 (equivalent to RMB88,963,000) of CBs was converted into 16,790,798 ordinary shares of the Company. There were no outstanding CBs which had not been converted.

Seven-year 7.375% fixed rate bonds

On 5 August 2005, the Company issued 7-year bonds in the aggregate principle amount of US$200,000,000 (equivalent to RMB1,614,040,000) with issue price and redemption price of 100%, which are unconditionally and irrevocably guaranteed by the guarantor subsidiaries. The guarantor subsidiaries are wholly-owned subsidiaries of the Company and are primarily holding companies that operate through subsidiaries. The coupon of the bonds is 7.375%, and interests are paid semi-annually.

As all the operations of the Group are in the PRC, if the appreciation of RMB would continue in the future, the Group will benefit from earning RMB and repaying foreign currency debts, the costs for foreign currency debt will be lowered indirectly.

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

Borrowings structure

As at 31 December 2007, the Group's total bank and other borrowings amounted to RMB5,054,324,000 (31 December 2006: RMB4,022,936,000), including bank and other loans and guarantee notes of US$215,000,000 (equivalent to RMB1,570,489,000) and mortgage loans of HK$19,618,000 (equivalent to RMB18,370,000). Apart from the US$200,000,000 fixed rate guarantee notes and RMB400,000,000 fixed rate debenture, other US dollar loans and HK dollar mortgage loans bear interest at floating rates, and the remaining bank and other borrowings are denominated in Renminbi and bear interest at the interest rates announced by the People's Bank of China. The project companies used the Renminbi loans as their capital expenditure, working capital and operational expenditure. Except for the loan amount equivalent to RMB1,815,866,000 that are secured by assets with the carrying amount RMB136,540,000, all of the other loans are unsecured. Short-term loans amounted equivalent to RMB1,233,154,000 while the remaining were long-term loans falling due after more than a year. Details of commitments and financial guarantee liability are set out in Note 43 and 35 to the Financial Statements respectively.

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

PROTECTING OUR FUTURE

The Group has launched CHUEE project in 2007, and successfully reduced the emission of 93,557 tons of carbon dioxide.

The combustion of natural gas emits
60%
less carbon dioxide than coal

DIRECTORS AND SENIOR MANAGEMENT


WANG Yusuo


YANG Yu


QIAO Limin


CHEN Jiacheng


ZHAO Jinfeng


YU Jianchao


CHEUNG Yip Sang


CHENG Chak Ngok

OUTSTANDING MANAGEMENT

The Company was ranked "Global Chinese Business 1000" by Yazhou Zhoukan during the year, which is the seventh consecutive year the Company gained the Chinese business enterprise ranking.

EXECUTIVE DIRECTORS

Mr. WANG Yusuo, aged 44, is a co-founder, the Chairman and an Executive Director of the Company. He is responsible for overseeing the Group's overall strategic planning and providing leadership for and overseeing the functioning of the Board. Mr. Wang has over 21 years of experience in the investment in, and the management of, the gas business in the PRC. He holds a PhD qualification in management from the Tianjin University of Finance and Economics. Mr. Wang is currently a committee member of the Eleventh Chinese People's Political Consultative Conference and a Vice Chairman of the Ninth Executive Committee of the All-China Federation of Industry and Commerce. He has won various awards, including Hebei's Top 10 Outstanding Young Persons, etc. Mr. Wang is a director and a controlling shareholder of Xinao Group International Investment Limited ("XGII"), which is a controlling shareholder of the Company. Mr. Wang is the spouse of Ms. Zhao Baoju and the brother-in-law of Mr. Zhao Jinfeng. Mr. Wang and Ms. Zhao Baoju jointly own various investment holding companies.

Mr. YANG Yu, aged 50, is an Executive Director and the Chief Executive Officer of the Company responsible for managing and implementing the Group's investment in the PRC, ensuring the safety of the Group's projects, securing gas supply and further increasing gas investments and markets in the PRC. Prior to joining the Group in 1998, he worked at the China Oil and Gas Pipeline Bureau. He graduated from the Pipeline Bureau Staff College of the Ministry of Petroleum Industry in 1985, obtained a master's degree in banking from Renmin University of China in 1999 and a master's degree in business administration from Nanyang Technological University in Singapore in 2005. Mr. Yang has over 22 years of experience in the PRC gas industry. Mr. Yang is a director of XGII, which is a controlling shareholder of the Company.

Mr. CHEN Jiacheng, aged 44, is an Executive Director and the General Manager of the Company. Mr. Chen joined the Group in 2002 and is responsible for business administration and management of the Group's gas projects. He holds a bachelor's degree in engineering from Northwest Industrial University and a master's degree in business administration from Tsinghua University. Mr. Chen has over 17 years of experience in business administration and management.

Mr. ZHAO Jinfeng, aged 40, is an Executive Director and a Deputy General Manager of the Company responsible for assisting the chief executive officer in managing and implementing the Group's investment projects in the PRC. He graduated from the Township and Village Enterprise Cadre College of the Ministry of Agriculture and worked at Langfang City Electrical Company as an economist for resources management prior to joining the Group in 1993. Mr. Zhao has over 15 years of experience in the PRC gas industry. Mr. Zhao is the brother of Ms. Zhao Baoju and the brother-in-law of Mr. Wang Yusuo.

Mr. QIAO Limin, aged 49, is an Executive Director of the Company responsible for coordination and operational matters of the Group. Prior to joining the Group in 1993, he worked at Baotou City Education College and was an assistant lecturer at Langfang City Health College. He graduated from Baotou City Education College in 1984. Mr. Qiao has over 15 years of experience in managing gas projects and supervising gas supply operations and safety.

Mr. YU Jianchao, aged 39, is the Finance Director of the Company and has joined the Group since 1998. He graduated from the Hebei Economics and Finance College in 1993 and obtained an executive master's degree in business administration from China Europe Business School in 2005. Prior to joining the Group, he worked as the chief accountant for a number of foreign enterprises, including GSK (Langfang) Co., Ltd. and Nissin Foods Co., Ltd.. Mr. Yu has over 19 years of experience in accounting and finance. Mr. Yu is a director of XGII, which is a controlling shareholder of the Company.

Mr. CHEUNG Yip Sang, aged 41, is an Executive Director and a Deputy General Manager of the Company responsible for exploring the piped gas market in the PRC. He holds a bachelor's degree in Legal Studies from The Chinese People's Armed Police Force Academy. Prior to joining the Group in 1998, he was the sales manager of Eastern Guangdong Region of Shantou Jiadan Beer Company Limited. Mr. Cheung has extensive experience in marketing and sales.

Mr. CHENG Chak Ngok, aged 37, is an Executive Director, the Financial Controller and the Company Secretary of the Company responsible for financial management, corporate finance, implementation of good corporate governance as well as investor relations management. Prior to joining the Group in 2000, he worked at an international accounting firm and also worked as the chief accountant of a freight forwarding company. He graduated from Manchester Metropolitan University with a first class honours bachelor's degree in accounting and finance. He is now studying an executive master's degree in business administration in the Peking University. He is a fellow member of the Association of Chartered Certified Accountants in England, and also an associate member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in England. Mr. Cheng has over 15 years of experience in accounting, financial management and corporate finance. Mr. Cheng is the financial controller of XGII, which is a controlling shareholder of the Company.

NON-EXECUTIVE DIRECTORS

Ms. ZHAO Baoju, aged 42, is a co-founder and a Non-Executive Director of the Company. She has over 15 years of experience in investing in gas fuel projects in the PRC. She graduated from the Hebei Medical College Professional Nursing School in 1987 and the Chinese Language Faculty of Capital Normal University in 1998. Ms. Zhao is a director and a controlling shareholder of XGII, which is a controlling shareholder of the Company. Ms. Zhao is the spouse of Mr. Wang Yusuo and the sister of Mr. Zhao Jinfeng. Ms. Zhao and Mr. Wang Yusuo jointly own various investment holding companies.

Mr. JIN Yongsheng, aged 44, is a Non-Executive Director of the Company. He graduated from the Tianjin University of Finance and Economics in 1986, specializing in finance, obtained an executive master's degree in business administration from the Peking University in 2005. Prior to joining the Group in 1996, he was an assistant professor in the Township and Village Enterprise Cadre College of the Ministry of Agriculture. Mr. Jin is a qualified practicing lawyer in the PRC and has over 18 years of experience in legal practice. Mr. Jin is a director of XGII, which is a controlling shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WANG Guangtian, aged 44, is an Independent Non-Executive Director appointed by the Company in 2001. He holds a master's degree in world economics from Hebei University and has over 25 years of experience in financial and administrative management. He is currently a vice president of Guofu Group and a director and the general manager of Guofu (Hong Kong) Holdings Limited.

Ms. YIEN Yu Yu, Catherine, aged 37, is an Independent Non-Executive Director appointed by the Company in 2004. She is currently a director of N M Rothschild & Sons (Hong Kong) Limited. She graduated from the Imperial College of Science, Technology and Medicine of University of London in England with a Joint Honours Degree in Mathematics with Management (BSc Hons). Ms. Yien is a holder of the Chartered Financial Analyst designation and an ordinary member of the Hong Kong Securities Institute. She has extensive experience in the areas of corporate finance, investment, mergers and acquisitions.

Mr. KONG Chung Kau, aged 38, is an Independent Non-Executive Director appointed by the Company in 2005. He is currently a sole proprietor of C.K. Kong & Co. Certified Public Accountants. Mr. Kong is a Certified Public Accountant holding practicing certificate, a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Kong has extensive experience in auditing, tax planning and finance.

SENIOR MANAGEMENT

Mr. JU Xilin, aged 50, is a Deputy General Manager of the Company, responsible for market development and operation. He graduated from the Communist Party College of Heilongjiang Province in 1987, specializing in economy management. Prior to joining the Group in 1996, he worked in state-owned enterprises where he was responsible for the operational management of those enterprises. Mr. Ju has over 25 years of experience in operational management.

Mr. HAN Jishen, aged 43, is a Deputy General Manager of the Company and the General Manager of Zhejiang and Fujian areas, responsible for market development and operation. He graduated from Baoding Staff University in 1990 obtained an executive master's degree in business administration from Nanyang Technological University in 2007. Mr. Han joined the Group in 1993 and is responsible for management and operations. He has over 15 years of experience in the gas fuel industry in the PRC.

Mr. ZHENG Haiyan, aged 41, is a Deputy General Manager of the Company responsible for the management of corporate engineering technology and quality. He graduated from the Township and Village Enterprise Cadre College of the Ministry of Agriculture and obtained a master's degree in business administration at Hong Kong Baptist University in 2005. Prior to joining the Group in 1993, Mr. Zheng was an engineer of Installation Works Company of the Ministry of Light Industry of the PRC. He has been appointed to be a standing committee member of China Coal Gas Association and a deputy head of its Natural Gas Professional Committee. Mr. Zheng has over 15 years of experience in gas industry in the PRC.

Mr. LIANG Zhiwei, aged 44, is the Chief Performance Officer of the Company responsible for strategic management and operation of the Company's strategies and performance. He graduated from Guilin Institute of Metallurgy and the Faculty of Resource and Environmental Engineering at the University of Science and Technology Beijing. He obtained a master of engineering degree from the University of Science and Technology Beijing in 1993. He is now studying the executive master's degree in business adminisation in Sino-Europe International Business School. Prior to joining the Group in 1999, Mr. Liang had worked for No. 1 Bureau of the China Exploration and Engineering Bureau for 16 years. Mr. Liang is experienced in city piped gas pricing research and enterprise's internal strategic management.

Mr. WANG Dongzhi, aged 39, is the Chief Accountant of the Company. Mr. Wang graduated in 1991 with a bachelor's degree in engineering management from Beijing Chemical University. Mr. Wang obtained a bachelor's degree in economics in 1996, the qualifications of Certified Accountant in the PRC in 2000 and a master's degree in business management from Tianjin University in 2003. Before joining the Group in 2000, Mr. Wang was in charge of the finance department of a Sino-foreign joint venture company. He has extensive experience in treasury and cost control.

Mr. YANG Junjie, aged 37, is the Deputy Chief Engineer of the Company responsible for technical research and development and technical management. He joined the Group in 2001. Mr. Yang obtained a bachelor degree of engineering from Chongqing Construction University (now known as Chongqing University), specializing in city gas engineering. He also obtained a master degree and a doctorate degree in heat supply, gas supply, ventilation and air-conditioning engineering from Shanghai Tongji University in 1997 and 2001 respectively. Mr. Yang has extensive academic attainments and rich experiences in city gas transmission and application.

The Directors have pleasure in submitting to shareholders their annual report and the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped and bottled gas in the People's Republic of China (the "PRC").

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the Consolidated Income Statement on page 75.

The Directors recommend the payment of a final dividend of HK$13.42 cents (equivalent to approximately RMB12.57 cents) per share to the shareholders on the register of members on 27 May 2008. The total dividend amount is approximately RMB126,880,000, and the retention of the remaining profit for the year is approximately RMB380,640,000.

FINANCIAL SUMMARY

Details of the summary of the published financial information of the Group for the past nine years are set out on page 18.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB1,929,901,000 has been incurred in acquiring property, plant and equipment.

During the year, the Group revaluated its properties, resulting in a revaluation deficit amounting to RMB9,487,000, of which RMB754,000 has been debited to the property valuation reserve and RMB8,733,000 has been debited to the consolidated income statement.

Details of the movements during the year in property, plant and equipment of the Group are set out in Note 15 to the Financial Statements.

SHARE CAPITAL AND BONDS

Details of movements during the year in the share capital and convertible bonds of the Company are set out in Notes 36 and 37 to the Financial Statements respectively.

RESERVES

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

BANK AND OTHER LOANS

Details of bank and other loans of the Group are set out in Note 33 to the Financial Statements.

CHARITABLE DONATIONS

Charitable donations by the Group for 2007 amounted to RMB1,655,000.

DIRECTORS' EMOLUMENTS

Details of Directors' emoluments are set out in Note 11 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors:

Wang Yusuo *(Chairman)*
Yang Yu *(Chief Executive Officer)*
Chen Jiacheng
Zhao Jinfeng
Qiao Limin
Yu Jianchao
Cheung Yip Sang
Cheng Chak Ngok

Non-executive Director:

Zhao Baoju
Jin Yongsheng

Independent non-executive Directors:

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

In accordance with Articles 116 of the Company's Articles of Association, Messrs Jin Yongsheng, Yien Yu Yu, Catherine, Kong Chung Kau, Cheung Yip Sang and Chen Jiacheng retire by rotation and, being eligible, offer themselves for re-election.

As of 31 December 2007, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation (other than statutory compensation).

The Company has received an annual confirmation from each of the independent non-executive Directors as regards their independence to the Company, and each of the independent non-executive Directors is considered independent to the Company.

DISCLOSURE OF INTERESTS

Directors' interests or short positions in shares and in share options

As at 31 December 2007, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

		Interests in shares						
Name of Director	Capacity	Personal interests	Corporate interests	Family interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	2,394,000 *(Note 2)*	333,275,000 *(Note 1)*	–	335,669,000	–	335,669,000	33.24%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	–	333,275,000 *(Note 1)*	2,394,000 *(Note 2)*	335,669,000	–	335,669,000	33.24%
Mr. Yang Yu	Beneficial owner	–	–	–	–	4,900,000	4,900,000	0.49%
Mr. Chen Jiacheng	Beneficial owner	–	–	–	–	4,550,000	4,550,000	0.45%
Mr. Zhao Jinfeng	Beneficial owner	1,950,000	–	–	1,950,000	4,550,000	6,500,000	0.64%
Mr. Qiao Limin	Beneficial owner	1,950,000	–	–	1,950,000	4,550,000	6,500,000	0.64%
Mr. Yu Jianchao	Beneficial owner	1,950,000	–	–	1,950,000	4,550,000	6,500,000	0.64%
Mr. Cheung Yip Sang	Beneficial owner	–	–	–	–	3,990,000	3,990,000	0.40%
Mr. Cheng Chak Ngok	Beneficial owner	–	–	–	–	560,000	560,000	0.06%

Notes:

1. The two references to 333,275,000 shares relate to the same block of shares. Such shares are held by Xinao Group International Investment Limited ("XGII"), which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang.

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' rights to acquire shares".

Save as disclosed above, as at 31 December 2007, the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

Directors' rights to acquire shares

Pursuant to the Company's share option schemes, the Company has granted options on the Company's ordinary shares in favour of certain Directors, the details of which are as follows:

Name of Director	Date of grant	Exercise period *(Note 1)*	Exercise price *(HK$)*	Number of shares subject to outstanding options as at 1 January 2007	Number of options exercised during the year	Number of shares subject to outstanding options as at 31 December 2007 *(Aggregate)*	Approximate percentage of the Company's total issued share capital *(Aggregate)*
Mr. Wang	14.02.2003	15.02.2005 – 14.02.2013	2.265	700,000 *(Note 2)*	700,000 *(Note 2)*	–	–
Ms. Zhao	14.02.2003	15.02.2005 – 14.02.2013	2.265	700,000 *(Note 2)*	700,000 *(Note 2)*	–	–
Mr. Yang Yu	14.02.2003	15.02.2005 – 14.02.2013	2.265	1,000,000	1,000,000	4,900,000	0.49%
	15.03.2006	16.09.2006 – 15.03.2016	6.650	3,500,000	2,100,000		
	15.03.2006	16.03.2008 – 15.03.2016	6.650	3,500,000	–		
Mr. Chen Jiacheng	15.03.2006	16.09.2006 – 15.03.2016	6.650	3,250,000	1,950,000	4,550,000	0.45%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	3,250,000	–		
Mr. Zhao Jinfeng	15.03.2006	16.09.2006 – 15.03.2016	6.650	3,250,000	1,950,000	4,550,000	0.45%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	3,250,000	–		
Mr. Qiao Limin	15.03.2006	16.09.2006 – 15.03.2016	6.650	3,250,000	1,950,000	4,550,000	0.45%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	3,250,000	–		
Mr. Yu Jianchao	15.03.2006	16.09.2006 – 15.03.2016	6.650	3,250,000	1,950,000	4,550,000	0.45%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	3,250,000	–		
Mr. Cheung Yip Sang	15.03.2006	16.09.2006 – 15.03.2016	6.650	2,850,000	1,710,000	3,990,000	0.40%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	2,850,000	–		
Mr. Cheng Chak Ngok	15.03.2006	16.09.2006 – 15.03.2016	6.650	400,000	240,000	560,000	0.06%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	400,000	–		
Total				41,200,000	13,550,000	27,650,000	

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

The fair value per share option is disclosed in Note 40 to the Financial Statements.

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholder	Capacity	Interests in shares: Personal interests	Interests in shares: Corporate interests	Interests in shares: Family interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital
Mr. Wang	Beneficial owner and interest of controlled corporation	2,394,000 *(Note 2)*	333,275,000 *(Note 1)*	–	335,669,000	–	335,669,000(L)	33.24%
Ms. Zhao	Interest of spouse and interest of controlled corporation	–	333,275,000 *(Note 1)*	2,394,000 *(Note 2)*	335,669,000	–	335,669,000(L)	33.24%
XGII	Beneficial owner	–	333,275,000 *(Note 1)*	–	333,275,000	–	333,275,000(L)	33.01%
Penta Investment Advisers Ltd.	Investment manager	–	111,227,768 *(Note 3)*	–	111,227,768	–	111,227,768(L)	11.02%
Mr. John Zwaanstra	Interest of controlled corporation	–	111,227,768 *(Note 3)*	–	111,227,768	–	111,227,768(L)	11.02%
Capital Research and Management Company	Investment manager	–	88,551,000	–	88,551,000	–	88,551,000(L)	8.77%
JPMorgan Chase & Co.	Investment manager and custodian corporate/ approved lending agent	–	79,451,703	–	79,451,703	–	79,451,703(L) (including 66,569,060(P))	7.87%
Commonwealth Bank of Australia	Interest of controlled corporation	–	69,494,000	–	69,494,000	–	69,494,000(L)	6.88%
T. Rowe Price Associates, Inc. and its affiliates	Investment manager	–	50,852,000	–	50,852,000	–	50,952,000(L)	5.04%

Notes:

1. The three references to 333,275,000 shares relate to the same block of shares. Such shares are held by XGII, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang.
3. The two references to 111,227,768 shares relate to the same block of shares. Such shares are held by Penta Investment Advisers Ltd., which is 100% owned by Mr. John Zwaanstra, in the capacity of an investment manager.
4. (L) represents Long Position; (P) represents Lending Pool.

Save as disclosed above, as at 31 December 2007, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company. Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2007, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

SHARE OPTION SCHEME

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

Details of the share option scheme are set out in Note 40 to the Financial Statements and the section headed "Directors' rights to acquire shares" in this report.

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

Grantee	Date of grant	Exercise period *(Note)*	Exercise price *(HK$)*	Number of shares subject to outstanding options as at 1 January 2007	Number of options exercised during the year	Number of shares subject to outstanding options as at 31 December 2007	Approximate percentage of the Company's total issued share capital
Directors	14.02.2003	15.02.2005 - 14.02.2013	2.265	1,700,000	1,700,000	27,650,000	2.74%
	15.03.2006	16.09.2006 - 15.03.2016	6.650	19,750,000	11,850,000		
	15.03.2006	16.03.2008 - 15.03.2016	6.650	19,750,000	–		
Employees	15.03.2006	16.09.2006 - 15.03.2016	6.650	9,100,000	5,460,000	12,740,000	1.26%
	15.03.2006	16.03.2008 - 15.03.2016	6.650	9,100,000	–		
Total				59,400,000	19,010,000	40,390,000	4.00%

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

No share option was lapsed or cancelled during the year.

The fair value per share option is disclosed in Note 40 to the Financial Statements.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group has entered into the transactions and arrangements as described below with persons who are "connected" for the purposes of the Listing Rules.

Non-Exempt Continuing Connected Transactions

(A) On 31 January 2005, those Wang Family Companies (note 1) being property management companies have entered into an agreement with the Group to provide the Group with property management services to the properties situated in the PRC occupied by the Group.

Property Management Services

Service provide party	Service accept party	Contract date	Contract period	Property	Contract sum *(RMB)*
(i) Langfang Xinao Property Management Company Limited *(note 1)*	Langfang Xinao Gas Company Limited	31.1.2005	3 years	Office building in Langfang city	208,000
(ii) Xinao Group Elephant Club Hotel Company Limited *(note 1)*	Langfang Xinao Gas Company Limited	1.4.2005	2.75 years	Office building in Langfang city	1,167,000
(iii) Xinao Group Elephant Club Hotel Company Limited *(note 1)*	Langfang Xinao Gas Company Limited	1.4.2005	3 years	Gas processing station in Langfang city	300,000
(iv) Langfang Xinao Gaoke Services Management Company Limited *(note 1)*	Langfang Xinao Gas Equipment Company Limited	1.10.2006	6 months	Office building in Langfang city	30,000
(v) Langfang Elephant Club Property Management Company Limited ("Elephant Club") *(note 1)*	Langfang Xinao Gas Equipment Company Limited	1.1.2007	9 months	Office building in Langfang city	256,000
(vi) Elephant Club *(note 1)*	• Xinao Energy Logistics Limited • Beijing Xinao Huading Trading Company Limited • Xinao Energy Trading Limited	1.1.2007	1 year	Office building in Langfang city	173,000
(vii) Elephant Club *(note 1)*	Xinao Gas Development Company Limited	1.3.2007	1 year	Office building in Langfang city	268,000
(viii) Elephant Club *(note 1)*	Xinao Gas Development Company Limited	1.7.2007	6 months	Staff quarter in Langfang city	40,000
(ix) Bengbu Xinao Property Company Limited *(note 1)*	Bengbu Xinao Gas Company Limited	1.1.2007	1 year	Office building in Bengbu city	31,000
					2,473,000

(B) On 31 January 2005, the Group and the Wang Family Companies entered into an agreement, whereby each of the Group and the Wang Family Companies has agreed to lease to each other certain properties owned by the Group and the Wang Family Companies respectively.

Property Leasing Services

Service provide party	Service accept party	Contract date	Contract period	Property	Contract sum *(RMB)*
(i) Langfang Xinao Gas Company Limited	Xinao Group Company Limited *(note 1)*	31.1.2005	3 years	Office building in Langfang city	1,402,000 (including RMB363,000 management fee)
(ii) Langfang Xinao Gas Equipment Company Limited	Enric (Langfang) Energy Equipment Integration Company Limited *(note)*	28.2.2006	2 years	Office building in Langfang city	670,000
(iii) Xinao Gas Investment Group Limited	Enric Investment Group Limited *(note)*	7.2.2005	3 years from 1.2.2005	Office in HK	274,000
					2,346,000

Note: Enric Group ceased as a connected party since 7 August 2007.

(C) On 31 January 2005, the Group and the Wang Family Companies entered into an agreement, whereby the Group has agreed to purchase and the Wang Family Companies have agreed to sell, in the ordinary course of its business, gas-related machinery and equipment manufactured by the Wang Family Companies (including but not limited to gas refuelling stations, gas refuelling daughter station trailers, storage tanks, compressed natural gas ("CNG") and liquefied natural gas ("LNG") trucks and compressors).

Purchase of Gas Equipment

Seller	Buyer	Contract date	Products	Contract sum *(RMB)*
• Shijiazhuang Enric Gas Machinery Company Limited ("Shijiazhuang Enric") • Enric (Bengbu) Compressor Company Limited ("Enric Bengbu") • Enric (Langfang) Energy Equipment Integration Company Limited	Subsidiaries under Xinao Gas Holdings Limited	2007	• Gas refuelling stations • Gas refuelling daughter station trailers • Storage tanks • CNG and LNG trucks and compressors	104,846,000

Pursuant to Rule 14A.38 of the Listing Rules, the board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of Directors. The independent non-executive Directors have reviewed the continuing connected transactions and the report of the auditors and confirmed that, in their opinion:

1. The transactions have been entered into by the Group in the ordinary and usual course of business of the Group;
2. The transactions have been entered into on normal commercial terms, or where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than those available to or from independent third parties; and
3. The transactions have been entered into in accordance with the terms of the agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Non-Exempt Connected Transactions

On 21 December 2007, the Company entered into the DME Agreement with Xinneng Investment Group Limited (note 1) for the sale and purchase of DiMethyl Ether ("DME"). The Group has agreed to purchase and Xinneng Investment Group Limited and its subsidiaries ("Xinneng Investment Group") has agreed to sell 10,000 tones of DME manufactured by Xinneng Investment Group with the delivery of the same to be made within three months from the date of the DME Agreement. The total consideration is RMB50,000,000 (equivalent to approximately HKD53,000,000). The relevant proportion of the consideration shall be payable within 7 days upon delivery of each batch of products. The consideration was determined on the basis of the current market price of DME which is currently at RMB5,000 (equivalent to approximately HKD5,300) per ton. As DME is a kind of liquefied gas that can be mixed with and substitute part of the LPG but with a lower cost, the purchase and utilization of DME in the mix of LPG can thus lower the Group's cost of production and enhance the profit margin of the Group. Details of the transaction were disclosed in the Company's announcement dated 21 December 2007.

Exempted Connected Transactions

During the year, Xinao Gas Development, Shijiazhuang Xinao Gas Company Limited, Xinao Gas Engineering Company Limited and Bengbu Xinao Gas Company Limited provided gas connection services to Elephant Club (note 1), Langfang Xinao Property Development Company Limited ("Langfang Property") (note 1), Shijiazhuang Enric (note 1), Enric Bengbu (note 1) and Bengbu City Investment Holding Company Limited (note 2) with the contract sum of RMB120,000, RMB4,820,000, RMB27,000, RMB80,000 and RMB120,000 respectively.

During the year, Zhuzhou Xinao paid rentals of properties to Zhuzhou City Urban Construction Investment and Operation Company Limited ("Zhuzhou Construction") (note 2) with the amount of RMB74,500, whilst Haining Xinao paid rentals of properties to Haining City Wantong Gas Company Limited ("Haining Wantong") (note 2) and Haining City Mintai Coal Gas Company Limited ("Haining Mintai") (note 2), with the amount of RMB50,000 and RMB120,000 respectively. Shijiazhuang Xinao Vehicle Gas Company Limited paid rental to Sinopec Group Shijiazhuang Petroleum Company Limited (note 2) with the amount of RMB2,052,000.

During the year, Beijing Xinao Gas Company Limited purchased decoration service for an office building from Beijing Xinao Guangxia Property Development Company Limited (note 1) for a consideration of RMB4,910,000.

During the year, the Group made a donation of RMB540,000 to Xinao Charity Fund (note 3).

During the year, the Group paid supporting service fee to Langfang Tongcheng Vehicle Services Company Limited (note 1), Xinao Group Elephant Club Hotel Company Limited (note 1), Xinao Petroleum and Gas Refuelling Station of Langfang City Gas Company Limited (note 1), Xinao Bowei Technologies Company Limited (note 1), Langfang Conversion Factory of Shijiazhuang Chemical Machinery Service Company Limited (note 1). For the services of transportation, hotel, gasoline, technology and repairs respectively for the fee of RMB1,335,000, RMB478,000, RMB686,000, RMB1,609,000 and RMB221,000 respectively.

During the year, Xinan Xinao Gas Company Limited purchased assets from Xinan Changtong Gas Company Limited (note 2) with the consideration of RMB6,000,000.

Notes:

1. Wang Family Companies are companies controlled (entitled to exercise, or control the exercise of 30% or more of the voting power at the general meeting of the relevant company) by Mr. Wang, the Chairman, an executive Director and a controlling shareholder of the Company, and/or his associates (including Ms. Zhao, a non-executive Director and a controlling shareholder of the Company and the spouse of Mr. Wang), thereby being connected persons of the Company during the year.
2. Minority equity interest holder of one or more non-wholly-owned subsidiary(ies) of the Company who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of such non wholly-owned subsidiary, thereby being connected persons of the Company.
3. Xinao Charity Fund is a non-profit-making organization, of which Mr. Wang is the legal representative and he has no beneficial interests on the donation.
4. Most subsidiaries, jointly-controlled entities and associates of the Company in the PRC, minority equity interest holders and related parties mentioned above have names in Chinese only, and the English names used here are for reference only.

In the opinion of the independent non-executive Directors, these transactions were carried out in the ordinary course of business of the Group and on normal commercial terms.

Other than as disclosed above, no other contracts of significance to which the Company, its ultimate holding company or its subsidiaries was a party and in which a Director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in Note 49 to the Financial Statements.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share options as set out in Directors' rights to acquire shares and Note 40 to the Financial Statements, the Company issued five-year convertible bonds ("CB" or "CBs") in an aggregate principal amount of HK$550,000,000 on 15 November 2004. The CBs are zero coupon bonds; the issue price is 100% whereas the redemption price is 106.43%, which means that the effective interest rate is 1.25% per annum. The bondholders have the option to require the Company to redeem the CBs 2.5 years after the issue date. If the bondholders do not exercise the option of redemption, then they have to hold the CBs to maturity or exercise the conversion right during the conversion period. Bondholders can exercise the conversion right between 15 December 2004 and 15 November 2009 and convert the CBs into ordinary shares of HK$0.10 each of the Company, and the Company has the option to issue share or pay cash in lieu of shares to such bondholders. The conversion price for each ordinary share at the issue date of the CBs was HK$5.4375, which is subject to adjustment for events, if any, which may have diluting effects after the issue. If all the CBs are converted into shares, 101,145,000 ordinary shares of the Company will be issued. On 19 April 2007, the Company issued a Notice of Early Redemption of Convertible Bonds that all of the outstanding CBs would be redeemed on 21 May 2007 at the Early Redemption Amount. During the year, all the outstanding CBs, amounting HK$91,300,000 were converted into 16,790,798 ordinary shares of the Company. As at 31 December 2007, there was nil CBs outstanding.

Other than disclosed above, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2007.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the purchases attributable from the Group's largest suppliers and the five largest suppliers were 9.5% and 30.8% respectively during the year. None of the Directors, their associates, or any Shareholders (who to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers. The percentage of the turnover attributable from the Group's five largest customers was less than 30% during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters. Members of the Audit Committee are Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau, who are all independent non-executive Directors. The Audit Committee has reviewed the unaudited interim accounts and the audited annual accounts for 2007. Four Audit Committee meetings were held during the financial year.

REMUNERATION COMMITTEE

The Company's Remuneration Committee was established on 31 December 2004 and is composed of one executive Director, namely, Mr. Yang Yu, and three independent non-executive Directors, namely, Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau. The Remuneration Committee's responsibilities include the review of the Company's policy for remuneration of Directors and senior management and determination of the remuneration packages of executive Directors and senior management including benefits in kind, pension rights and compensation payments.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

To the knowledge of the Board, the Company has complied with the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Listing Rules throughout the year, except a deviation from the Code Provision E.1.2 because the chairman of the Board was unable to attend the annual general meeting of the Company held on 29 May 2007 due to business trip. Alternatively, Mr. Yang Yu, the chief executive officer of the Company, attended the said annual general meeting. Details of compliance are set out in the Corporate Governance Report on pages 50 to 73 of the Annual Report.

THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code set out in Appendix 10 to the Listing Rules. Specific enquiries have been made with all Directors who have confirmed that they complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions.

PUBLIC FLOAT

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

LOAN AGREEMENTS IMPOSING SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDERS

According to the US$25,000,000 Loan Agreement entered into by the Company and the subsequent amendment thereto, Mr. Wang Yusuo, the controlling shareholder of the Company, is required to retain at least 27% of the total issued share capital of the Company throughout the term of the loan agreement, which is 5 years from 18 May 2004. The Company issued 7-year bonds on 5 August 2005 and the terms and conditions of the bonds require Mr. Wang Yusuo, the controlling shareholder of the Company, to retain control over the Company throughout the term of the bonds. The total amount of the loan involved is US$200,000,000 (equivalent to RMB1,614,040,000).

INTERESTS IN COMPETITORS

During the year, none of the Directors or the management shareholders of the Company or their respective associates had an interest in a business which competes or may compete with the business of the Group.

AUDITORS

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

On behalf of the Board

WANG Yusuo

Chairman

Hong Kong, 22 April 2008

CORPORATE GOVERNANCE REPORT

The Company is committed to upholding good corporate governance practices. The corporate governance principles of the Company emphasise on an effective board, prudent internal and risk control, transparency and quality disclosure and accountability to shareholders. The board of directors (the "Board") and the management of the Company have been continually reviewing and enhancing the corporate governance practices with reference to local and international standards. The Board believes that its continued efforts in enhancing the Company's corporate governance practices have, directly and indirectly, contributed to the strong business growth of the Company and its subsidiaries (the "Group") in the past years. The Company is honoured to have received numerous awards from independent bodies recognising the Group's achievements in business and management which include the following:

AsiaMoney

- Year 2004, 2005 "Best Managed Companies (China, Medium Cap)"
- Year 2002, 2003 "Best Small Cap Company (China)"
- Year 2001, 2003 "Overall Best Managed Company (China)"

Yazhou Zhoukan

- Year 2007 "Global Chinese Business 1000"
- Year 2001, 2002, 2003, 2004, 2005, 2006 "Chinese Business 500"
- Year 2003, 2004, 2005 "Top 20 Chinese Enterprises of Assets Growth"
- Year 2002, 2003 "Top 20 Chinese Enterprises of Revenue Growth"

FinanceAsia

- Year 2005 "The Best Small Cap"
- Year 2002 "Best Financial Management"
- Year 2001 "The Best Small Cap IPO"

Forbes Global

- Year 2001, 2002, 2003 "The 200 Best Under a Billion"

EuroWeek

- Year 2005 "Best Asian High Yield Bond Issue"

The Hong Kong Management Association

- Year 2005 "Honourable Mention, The Best Annual Reports Awards"

International ARC Awards

- Year 2003, 2006, 2007 "Honors, Overall Annual Report"

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions in the Code on Corporate Governance Practices (the “CG Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except a deviation from Code Provision E.1.2 with explanation set out herein. In addition, the Company has also further complied with those recommended best practices in the CG Code as set out herein.

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

1. internal risks identification, reporting, assessment and management;
2. knowledge management and sharing;
3. internal auditing systems with emphasis on operation and financial audit as well as management control; and
4. standardisation of work flow with reference to established best practices.

To promote risk management along the operation chain, the Group’s risk management committee has adopted and implemented a risk management model by phase-in approach in four subsidiaries of the Company. A reward-and-punishment scheme is also in place to ensure the effective implementation of the model. The risk management model helps the subsidiaries to manage the risks actively. In 2008, the risk management model will be implemented in other selected subsidiaries.

Starting from 2006, the Group has engaged IBM Global Services (China) Company Limited (“IBM”) to implement Enterprise Resource Planning (“ERP”) and install SAP business software solutions. During the course of SAP development, all control points in our current operational and financial systems have been recognised, improved and implemented into SAP to ensure effective internal control. SAP also enhances the financial reporting system by providing more accurate and timely information.

In 2007, the Group has continued its effort in fortifying the effectiveness of SAP, with a view to raising the transparency of business operation and accessibility of management information within the Group. The internal control framework of the Group has also been strengthened under the implementation of SAP.

We summarise below each of the code provisions set out in the CG Code and the recommended best practices which the Company has complied with together with corresponding details of compliance.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

A. Directors

A.1 The Board

Code Principle

The board should assume responsibility for leadership and be collectively responsible for directing and supervising the issuer's affairs. Directors should make decision objectively in the interest of the issuer.

Code Provisions	Compliance	Details of Compliance
• At least four regular board meetings a year.	Yes	The Board meets at least on a quarterly basis. In 2007, a total of ten Board meetings (including four regular Board meetings) were held. Details of Directors' attendance record of Board meetings and Board Committees meetings in 2007 are as follows:

Board meeting

Director	*Attendance*	
Mr. Wang Yusuo	6/10	(4/4)*
Mr. Yang Yu	8/10	(3/4)*
Mr. Chen Jiacheng	4/10	(3/4)*
Mr. Zhao Jinfeng	4/10	(3/4)*
Mr. Qiao Limin	4/10	(3/4)*
Mr. Yu Jianchao	10/10	(4/4)*
Mr. Cheung Yip Sang	6/10	(4/4)*
Mr. Cheng Chak Ngok	10/10	(4/4)*
Ms. Zhao Baoju	6/10	(4/4)*
Mr. Jin Yongsheng	5/10	(3/4)*
Mr. Wang Guangtian	9/10	(3/4)*
Ms. Yien Yu Yu, Catherine	10/10	(4/4)*
Mr. Kong Chung Kau	10/10	(4/4)*

* regular Board meetings

Audit Committee meeting

Committee member	*Attendance*
Mr. Kong Chung Kau	4/4
Mr. Wang Guangtian	3/4
Ms. Yien Yu Yu, Catherine	4/4

Remuneration Committee meeting

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

Convertible Bond Committee meeting

Committee member	*Attendance*
Mr. Yang Yu	4/4
Mr. Yu Jianchao	4/4
Mr. Cheng Chak Ngok	4/4

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

A.1 The Board (continued)

Code Provisions	Compliance	Details of Compliance
• Opportunity to all directors to include matters in the agenda for regular board meetings.	Yes	• Directors are consulted as to items to be included and items which the Directors may wish to include in the agenda for regular board meetings before the finalised version of the relevant agenda is despatched to the Directors.
• At least 14 days notice given to all directors prior to a regular board meeting.	Yes	• Notice of a regular Board meeting is given to all Directors not less than 14 days prior to such meeting. The relevant papers and documents are given to all Directors not less than 3 days prior to such meeting.
• Access to advice and services of the company secretary.	Yes	• The company secretary of the Company (the "Company Secretary") is responsible for company secretarial matters of the Group, including Board procedures and corporate governance practices compliance. • In addition, the Company retains legal advisers and company secretarial services provider to provide legal advice and secretarial services to the Company. • All Directors have access to the services and advice of the Company Secretary.
• Minutes of meetings kept by company secretary and available for inspection.	Yes	• All Board and Board Committees minutes and records are kept by the Company Secretary and will be available for inspection in Hong Kong by any Directors.
• Draft and final minutes of board meetings sent to all directors for comments and records, in both cases, within a reasonable time.	Yes	• Draft minutes of a Board meeting will be prepared by the Company Secretary and circulated to all the Directors for review and comment, and final version of the Board minutes will be sent to all Directors for record as soon as practicable after the relevant Board meeting.
• Agreed procedure for directors to seek independent professional advice at the company's expense.	Yes	• The Board has adopted a written procedure for the Directors to seek independent professional advice at the Company's expense.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

A.1 The Board (continued)

Code Provisions	Compliance	Details of Compliance
• If a substantial shareholder/director (or any of his/her associates) has a conflict of interest in a matter which the Board has determined to be material, a board meeting should be held. The director having interest in the matter must abstain from voting and not be counted in quorum. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	Yes	• The Articles of Association of the Company stipulate that subject to certain exceptions contained therein, a Director shall not be entitled to vote on (nor shall be counted in the quorum in relation thereto) any resolution of the Board in respect of any contract or arrangement or any other proposal whatsoever in which he/she has any material interest, and if he/she shall do so his/her vote shall not be counted (nor will he/she be counted in the quorum for the resolution). • It is the practice of the Board to hold a meeting to decide on any matter in which a substantial shareholder or a Director (or any of its/his/her associates) has a material interest and to request for presence of independent non-executive Directors.

Recommended Best Practice	Compliance	Details of Compliance
• Insurance cover in respect of legal action against directors.	Yes	• There is in place a directors & officers liabilities insurance covering the Directors and officers of the Group.
• Board committees should adopt broadly the same principles and procedures.	Yes	• Currently, there are two Board Committees, being the Audit Committee and the Remuneration Committee. All Board Committees adopt broadly the same principles and procedures applicable to the Board as stated in this Section A.1 herein above.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

A.2 Chairman and chief executive officer

Code Principle

The management of the board and the day-to-day management of the issuer's business should be clearly divided and separately undertaken by different officers to ensure a balance of power and authority.

Code Provisions	Compliance	Details of Compliance
• Roles and responsibilities of chairman and chief executive officer should be separate and clearly established and set out in writing.	Yes	• The roles and responsibilities of the chairman (the "Chairman") and the chief executive officer (the "CEO") of the Company are separate and clearly set out in writing. • Mr. Wang Yusuo, the Chairman, is responsible for overseeing the Group's overall direction and strategic planning. In addition, the Chairman also plays a key role in driving all Directors to actively contribute to the Board affairs and establishing good corporate governance practices and procedures. • Mr. Yang Yu, the CEO, is responsible for managing the business of the Group, executing the strategies and decisions of the Board, and managing the day-to-day operations of the Group. • Apart from acting as a director or chief executive officer in a number of companies owned and controlled by Mr. Wang Yusuo and/or his family, Mr. Yang Yu has no other relationship with Mr. Wang Yusuo.
• The chairman should ensure all directors be briefed on issues arising at board meetings.	Yes	• Currently, the Chairman is responsible for provision of the necessary information, either through himself or other members of the management, to all Directors on issues arising at the Board meeting.
• The chairman should ensure that directors receive adequate information.	Yes	• The Board has established procedure regarding supply and access of information (see Section A.6 below). Further, the Chairman will upon request provide the necessary information, either through himself or other members of the management, to all Directors for discharging their duties.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

A.2 Chairman and chief executive officer (continued)

Recommended Best Practice	Compliance	Details of Compliance
Various recommended roles for chairman including:		
• Ensure establishment of good corporate governance practices and procedures.	Yes	• The Chairman plays a key role in ensuring good corporate governance practices and encouraging active participation and constructive contribution and relations of the Directors.
• Encourage directors to make a full and active contribution to board affairs.		• The Board has taken the following measures in relation to corporate governance practices: 1. the Board has adopted guidelines regarding: a) the roles and responsibilities of the Board and the senior management; b) the procedure for the Directors to seek independent professional advice at the Company's expenses; c) the division of responsibilities between the Chairman and the CEO; and d) dealing in the securities of the Company by employees of the Group; and 2. the Company arranged training programmes and seminars on various topics covering, inter alia, matters relating to strategy and management of companies, corporate governance and leadership for the Directors and the management members.
• Facilitate the effective contribution of non-executive directors and ensure constructive relations between executive and non-executive directors.		• Any Directors could access to the Company Secretary anytime to express their opinion on the Company's business and require to hold a Board meeting anytime.
• Ensure effective communication with shareholders and views of shareholders are communicated to the board as a whole.		• The Company has set up an investor relation department since 2002. Any shareholders could communicate with the Company through emails, letters, phone calls or meetings etc. Shareholder's view would be passed to the Board for discussion according to its importance.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

A.3 Board composition

Code Principle

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should also include a balanced composition of executive and non-executive directors (including independent non-executive directors) to ensure that independent judgment can be made effectively.

The Company's Board

The Board currently comprises eight executive Directors, two non-executive Directors and three independent non-executive Directors. As at 31 December 2007, the Board members were as follows:

Mr. Wang Yusuo	(Chairman and Executive Director)
Mr. Yang Yu	(CEO and Executive Director)
Mr. Chen Jiacheng	(Executive Director)
Mr. Zhao Jinfeng	(Executive Director)
Mr. Qiao Limin	(Executive Director)
Mr. Yu Jianchao	(Executive Director)
Mr. Cheung Yip Sang	(Executive Director)
Mr. Cheng Chak Ngok	(Executive Director)
Ms. Zhao Baoju	(Non-executive Director)
Mr. Jin Yongsheng	(Non-executive Director)
Mr. Wang Guangtian	(Independent Non-executive Director)
Ms. Yien Yu Yu, Catherine	(Independent Non-executive Director)
Mr. Kong Chung Kau	(Independent Non-executive Director)

For qualifications, experience, expertise and relationships (if any) of the Board members, please refer to the biographies of the Directors on pages 35 to 37 of this Annual Report. The Board believes that an adequate balance of skills and experience appropriate for the requirements of the business of the Company according to existing Board members composition.

Roles and functions

The Board is responsible for formulating strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Board gives clear directions as to the powers delegated to the management for the administrative and management functions of the Group. Such arrangements are reviewed by the Board on a periodic basis and appropriate adjustments may, from time to time, be made to ensure the decisions of the Board can be carried out effectively.

For the year ended 31 December 2007, the Board:

1. reviewed the performance of the Group and formulated business strategy of the Group;
2. reviewed and approved the annual results of the Group for the year ended 31 December 2006 and the interim results of the Group for the 6 months period ended 30 June 2007;
3. reviewed the effectiveness of the system of internal control and risk management of the Group;
4. reviewed general mandates to issue and repurchase shares of the Company; and
5. reviewed connected transactions of the Group.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

A.3 Board composition (continued)

Code Provisions	Compliance	Details of Compliance
• Identify the independent non-executive directors in all corporate communications that disclose the names of directors of the issuer.	Yes	• The names of all Directors and their titles (including Chairman, Chief Executive Officer, executive Directors, non-executive Directors and independent non-executive Directors) are disclosed in all corporate communications that disclose the names of the Directors, including annual reports, announcements, circulars to shareholders, notices of general meetings and in the Company's website at www.xinaogas.com.

Recommended Best Practice	Compliance	Details of Compliance
• Maintain on the website an updated list of directors identifying their roles, functions and (where applicable) whether they are independent non-executive directors.	Yes	• Biographies of the Directors, including their titles, roles and responsibilities, are maintained on the Company's website at www.xinaogas.com and updated from time to time.

A.4 Appointment, re-election and removal

Code Principle

There should be a formal, considered and transparent procedure for the appointment of new directors to the board. All directors should be subject to re-election at regular intervals.

Currently, the Company does not have a nomination committee for appointment of new Directors to the Board. The responsibilities of identifying and selecting suitably qualified individuals to become members of the Board are undertaken by the Board collectively. Where the Board considers necessary or desirable to appoint a new member to the Board (whether to fill a casual vacancy or otherwise), each member of the Board may nominate suitable individual(s) as candidate(s) of member(s) of the Board for the decision of the Board.

In selecting a suitable candidate to become a member of the Board, the Board will consider various criteria such as education, qualification, experience, skills and possible contribution of such candidate.

Code Provisions	Compliance	Details of Compliance
• Non-executive directors should be appointed for a specific term, subject to re-election.	Yes	• Currently, the term of appointment of all non-executive Directors (including independent non-executive Directors) are three years subject to retirement by rotation in accordance with the Articles of Association of the Company.
• Every director should be subject to retirement by rotation at least once every three years.	Yes	• The Company's Articles of Association stipulate that every Director will be subject to retirement by rotation at least once every three years.
• All directors appointed to fill a casual vacancy should be subject to election at the first general meeting after appointment.	Yes	• The Company's Articles of Association stipulate that a Director appointed to fill a casual vacancy will be subject to election at the next general meeting after appointment.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

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

Recommended Best Practice	Compliance	Details of Compliance
• Further appointment of an independent non-executive director serving more than nine years requires (i) separate shareholders approval and (ii) explanatory statement to shareholders to provide information on his continual independence. • Provide information to shareholders regarding the independence of the independent non-executive director proposed to be appointed.	Yes	• Currently, none of the independent non-executive Directors has served the Company for more than nine years. The Company will comply with this recommended best practice as and when the situation occurs. • It is the current practice of the Company that a separate resolution will be proposed at the general meeting for shareholders' approval in respect of each Director nominated for election or re-election. • Where Directors are subject to election or re-election at a general meeting, a circular will be issued in which detailed biographies, interests and independence of such Directors will be disclosed (where appropriate).

A.5 Responsibilities of directors

Code Principle

All directors (including non-executive directors) shall keep abreast of their responsibilities as a director of an issuer, and of the conduct, business activities and development of such issuer.

Code Provisions	Compliance	Details of Compliance
• Every newly appointed director should receive a comprehensive, formal induction to ensure that he/she has proper understanding of the business and his/her responsibilities under regulatory requirements, business and governance policies of the issuer.	Yes	• The Board will provide information memorandum on director's duties and obligations under the Cayman Islands laws, the Hong Kong laws and the Listing Rules to a newly appointed Director to assist such Director to understand his/her responsibilities. • The Board will also arrange for a meeting between the Company's legal advisers and a newly appointed Director in which the Company's legal advisers will explain to such Director his/her responsibilities under the relevant legal and regulatory requirements. • In addition, the Company will provide relevant information to ensure the newly appointed Director properly understands the business and governance policies of the Company. The newly appointed Director will be given opportunities to raise questions and give comments.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

A.5 Responsibilities of directors (continued)

Code Provisions	Compliance	Details of Compliance
• Functions of non-executive directors include: – bringing an independent judgment at board meetings. – taking the lead where potential conflicts of interests arise. – serving on committees if invited. – scrutinising the issuer's performance.	Yes	• Non-executive Directors are consulted as to the matters to be included for discussion at the Board meetings and are provided with opportunities to raise questions or comments at Board meetings. • In relation to each connected transaction or continuing connected transaction of the Company that requires independent shareholders' approval, the independent non-executive Directors will give independent opinion on the transaction. • All the independent non-executive Directors are members of the Audit Committee and the Remuneration Committee; both committees serve the function of scrutinising the Company.
• Directors should ensure that they can give sufficient time and attention to the affairs of the issuer.	Yes	• There have been satisfactory attendances in general for Board meetings and Board Committees meetings. Please refer to Directors' attendance record of Board meetings and Board Committees meetings (see Section A.1.)
• Directors must comply with their obligations under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules regarding their securities transactions.	Yes	• The Company has adopted the Model Code as the code of conduct regarding securities transaction by the Directors of the Company. Each Director is specifically required to confirm with the Company that he/she has complied with the required standard set out in the Model Code at least twice each year and there has not been any non-compliance by any Director in this respect.
• The board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealing in securities of the issuer.		• The Company has adopted written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealing in securities of the Company.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

A.5 Responsibilities of directors (continued)

Recommended Best Practice	Compliance	Details of Compliance
• Directors should participate in a programme of continuous professional development.	Yes	• In 2007, the Company organised 12 internal training programmes and seminars for the Directors and the senior management on various matters relating to corporate governance, leadership and corporate culture. There have been satisfactory attendances in general.
• Directors should disclose to the issuer at the time of his appointment (and on periodic basis) offices held in other organisations and other significant commitments.	Yes	• Details of a Director, including the offices held by such Director in other organisations and other significant commitments are kept by the Company Secretary, and updated at least once a year. Biography of each Director is updated from time to time and confirmed by such Director before being published in the Company's annual report and circulars. • Executive Directors who intend to accept any directorship or appointment in other companies or entities would need to consult and obtain prior approval from the Board before acceptance.
• Non-executive directors should ensure regular attendance of and active participation in board committees, board meetings and general meetings.	Yes	• During the year under review, the non-executive Directors have actively participated in Board meetings, Board Committees meetings (if invited) (see Section A.1) and general meetings in general.
• Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.	Yes	• During the year under review, the non-executive Directors have satisfactorily discharged their duties.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

A.6 Supply of and access to information

Code Principle

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as director of an issuer.

Code Provisions	Compliance	Details of Compliance
• Agenda and papers for regular board meetings should be sent in full to all directors at least three days before the date of such board meetings.	Yes	• Agenda and Board papers are currently sent in full to all Directors at least three days before the date of a regular Board meeting.
• Each director should have separate and independent access to senior management.	Yes	• Senior management will meet with the Directors from time to time and as requested by the Directors.
• Directors are entitled to have access to board papers and related materials and steps must be taken to respond promptly and fully to director queries.	Yes	• Papers relating to Board meetings will be circulated to the Directors who may request for further information. Draft minutes of a Board meeting will be circulated to all the Directors for review and comment prior to the same being finalised. Board minutes will be sent to the Directors for record after the meeting. • Board and committees minutes and papers are available for inspection by Directors and Board Committees members. • Each Director will be given the opportunity to raise questions or provide comments at Board meetings, and his/her questions will be answered at the meeting or promptly thereafter. Comments will be noted and relevant action will be taken (if appropriate) after discussion.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The level and make-up of remuneration and disclosure

Code Principle

An issuer should establish a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration package for all directors. No director should be involved in deciding his own remuneration.

Remuneration Committee

The Remuneration Committee was established on 31 December 2004 and currently consists of the following members:

Mr. Yang Yu	(Executive Director, CEO and chairman of the Remuneration Committee)
Mr. Wang Guangtian	(Independent non-executive Director)
Ms. Yien Yu Yu, Catherine	(Independent non-executive Director)
Mr. Kong Chung Kau	(Independent non-executive Director)

The Remuneration Committee is primarily responsible for the following duties:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;
2. to have the delegated responsibilities to determine the specific remunerations packages of all executive Directors and senior management;
3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
4. to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
6. to make recommendations to the Board on the remuneration for non-executive Directors;
7. to ensure that no Director or any of his associates is involved in deciding his own remuneration;
8. to consult the Chairman and/or the CEO about their proposals relating to the remuneration of executive Directors and have access to professional advice if considered necessary; and
9. to report to the Board.

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

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

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

Code Provisions	Compliance	Details of Compliance
• Remuneration committee should be established with specific written terms of reference (containing the minimum prescribed details as set out in paragraph B.1.3 of Appendix 14 to the Listing Rules) and should be available on request.	Yes	• The Company has established a Remuneration Committee with terms of reference which meet the requirements as set out in paragraph B.1.3 of Appendix 14 to the Listing Rules. • The terms of reference of the Remuneration Committee are posted on the Company's website and will be available on request.
• The remuneration committee should consult the chairman and/or chief executive officer regarding proposed remuneration of other executive directors and have access to professional advice if necessary.	Yes	• The terms of reference of the Remuneration Committee provide that the committee should consult the Chairman and/or the CEO about proposed remuneration of other executive Directors. • The Remuneration Committee will consult the Chairman and/or the CEO before making recommendation on remuneration to the Board and will seek independent professional advice as and when necessary.
• The remuneration committee should be provided with sufficient resources to discharge its duties.	Yes	• The terms of reference of the Remuneration Committee provide that members of the Remuneration Committee may seek outside legal and independent professional advice as and when necessary at the costs of the Company. • In addition, the Board and the senior management will give full support to the Remuneration Committee.

Recommended Best Practice	Compliance	Details of Compliance
• Where the board resolves to approve any remuneration which the remuneration committee has previously resolved not to approve, the board must disclose the reasons for its resolution in its next annual report.	Yes	• The Board has not resolved to approve any remuneration which the Remuneration Committee has previously resolved not to approve. The Board will disclose the reasons in the corresponding annual report if such circumstances occur in the future.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Code Principle

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Code Provisions	Compliance	Details of Compliance
• Management should provide explanation on financial and other information to enable the board to make informed assessment.	Yes	• Directors are provided with general financial information with explanation thereof (if appropriate) of the Group on a regular basis. Moreover, the management also regularly meets with the Directors to present results and discuss any variance between the budget and the actual results (if any).
• Acknowledgement of directors' responsibility for preparing the accounts and a statement by the auditors regarding reporting responsibilities in auditors' report.	Yes	• A statement of Directors' responsibilities for financial statements is set out in the interim and annual reports. • Auditors' reporting responsibilities statement is set out in the auditors' report.
• Board's responsibility to present a balanced, clear and understandable assessment in annual/interim reports, price-sensitive announcements and other financial disclosures/ reports under regulatory requirements.	Yes	• The Board is collectively responsible for ensuring clear and understandable assessment in annual/interim reports, price-sensitive announcement and other financial disclosures/reports under regulatory requirements. In addition, the Audit Committee has been established to monitor the financial reporting process and the integrity of financial statements of the Company. • The Company's annual report was awarded by a famous independent association as "Honorable Mention, Best Annual Report Awards".

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

C.2 Internal controls

Code Principle

The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

Code Provisions	Compliance	Details of Compliance
• The directors should at least annually conduct a review of the effectiveness of the system of internal control.	Yes	• The Board has conducted a review of the effectiveness of the system of internal control and risk management of the Group covering all material controls including financial, operational and compliance controls, and risk management functions for the year 2007.

Recommended Best Practice	Compliance	Details of Compliance
• Issuers should disclose as part of the Corporate Governance Report a narrative statement how they have complied with the code provisions on internal control during the reporting period.	Yes	• The Board is responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. • The Group has implemented ERP and installed SAP, which served to recognise, review and improve all control points in our operational and financial system on-goingly. SAP also enhances the financial reporting system by providing more accurate and timely information. • The Company has implemented a workflow management system developed by IBM jointly with Digital China Holdings Limited. Under the system, authorised users can access to and share information across the Group, which in turn helps enhancing the internal control system. • The Group has established written procedures and an assessment system on assessing the effectiveness of the system of internal control and risk management of the Group. • A designated inspection team has been established to perform the internal control and risk management work of the Group with reference to established procedures and an assessment system. • Reports on each subsidiary of the Group will be produced for consideration. • The designated team will monitor the performance of those subsidiaries with low assessment results and will give advice on measures to be taken by such subsidiaries. • During the year under review, some internal control weaknesses have been found and corrected. There have not been any significant problems relating to the internal control aspects of the Group.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

C.3 Audit committee

Code Principle

The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee should be established with a clear terms of reference.

Audit Committee

The Audit Committee was established on 28 March 2001 and currently consists of the following members:

Mr. Kong Chung Kau, CPA	(Independent non-executive Director and chairman of the Audit Committee)
Mr. Wang Guangtian	(Independent non-executive Director)
Ms. Yien Yu Yu, Catherine, CFA	(Independent non-executive Director)

The Audit Committee is primarily responsible for the following duties:

1. to make recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
3. to develop and implement policy on the engagement of an external auditor to supply non-audit services; and
4. to monitor integrity of financial statements of the Company and the Company's annual report and accounts, interim report and to review significant financial reporting judgments contained in them.

The Audit Committee met 4 times during the year under review considering the interim and annual results of the Group and discussing with the auditors on the impact on any change of accounting policies, the scope of work regarding the annual audit, interim review and the supply of non-audit services, and the remuneration of the auditors. Attendance record of the Audit Committee members is set out in Section A.1 above.

Auditors' remuneration

For the year ended 31 December 2007, audit and non-audit services provided to the Group by Deloitte Touche Tohmatsu, the auditors of the Company, and the amounts of remuneration paid and payable in connection therewith are as follows:

Services	**Approximate Amount**
Audit services for the year 2007	
• Audit fee paid – Interim review	HK$819,800
• Audit fee payable – Annual audit (subject to final agreement with the auditors)	HK$4,000,000
Non-audit services for the year 2007	
• Fee paid for agree-upon procedures in respect of connected transactions of the Group and other miscellaneous services	HK$70,500

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

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

C.3 Audit committee (continued)

Code Provisions	Compliance	Details of Compliance
• Minutes should be kept by a duly appointed secretary and should be sent to all committee members within a reasonable time.	Yes	• Audit Committee minutes and papers are kept by the Company Secretary. Draft Audit Committee minutes is circulated to all the committee members for review and comment and final version of the minutes will be sent to all the committee members for record, as soon as practicable after the relevant Audit Committee meeting.
• A former partner of the existing auditors should not sit on the Audit Committee.	Yes	• None of the Audit Committee members is a former partner of the external auditors of the Group.
• The terms of reference of audit committee should contain the minimum prescribed details in paragraph C.3.3 of Appendix 14 to the Listing Rules and should be made available on request.	Yes	• The Company has established an Audit Committee with terms of reference which meet the requirements as set out in paragraph C.3.3 of Appendix 14 to the Listing Rules. • The terms of reference of the Audit Committee are posted on the Company's website and will be available on request. The primary responsibilities of the Audit Committee are set out therein.
• Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in the Corporate Governance Report the audit committee's recommendation and the board's view.	Yes	• The Board has not had any disagreement with the Audit Committee on the selection, appointment, resignation or dismissal of external auditors. Should there be such a disagreement, the Board will include the relevant details in its Corporate Governance Report.
• The audit committee should be provided with sufficient resources to discharge its duties.	Yes	• The terms of reference of the Audit Committee provide that the members of the Audit Committee may seek outside legal or other independent professional advice as and when necessary at the costs of the Company. • In addition, the Board and the senior management will give full support to the Committee.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

D. DELEGATION BY THE BOARD

D.1 Management functions

Code Principle

An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

Code Provisions	Compliance	Details of Compliance
• The board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the board. • Formalise the functions reserved to the board and those delegated to management.	Yes	• The Board has set out in writing clear division of the responsibilities of the Board and the senior management. In general, the Board is responsible for establishing the strategies and direction of the Group, setting objectives and business development plans, monitoring the performance of the senior management, and ensuring good corporate governance. The senior management, which is led by the CEO, is responsible for executing the strategies and plans set by the Board, and reporting to the Board periodically to ensure proper execution.

Recommended Best Practice	Compliance	Details of Compliance
• Disclosure of division of responsibility between the board and management to assist those affected by corporate decisions to better understand their respective accountabilities.	Yes	• The Company has written internal guidelines setting out the division of responsibilities between the Board and management of the Company. In addition, the Board has made such disclosure to the Directors, the management and other staff by various means including internal circulars and meetings with management and staff.
• Formal letters of appointment for directors setting out the key terms and conditions relative to their appointment so that directors understand the delegation arrangements.	Yes	• It is the practice of the Company to enter into (i) a written service contract with each executive Director setting out the rights, obligation, duties, responsibilities and other terms and conditions of his/her appointment, and (ii) a letter of appointment with each non-executive Director confirming the terms of his/her appointment.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

D.2 Board committees

Code Principle

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

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

1. Convertible Bond Committee;
2. Audit Committee; and
3. Remuneration Committee.

The Convertible Bond Committee was established on 2 August 2005 and consists of the following members:

Mr. Yang Yu	(Executive Director and chairman of the Convertible Bond Committee)
Mr. Yu Jianchao	(Executive Director)
Mr. Cheng Chak Ngok	(Executive Director and Company Secretary)

The Convertible Bond Committee is primarily responsible for reviewing the validity of conversion notices given by holders of the convertible bonds issued by the Company and to determine either issuing new shares of the Company or making cash payment in lieu of new shares to such holders in accordance with the terms of the convertible bonds.

In 2007, the Convertible Bond Committee met 4 times. Attendance record of the convertible bonds members is set out Section A.1 above.

In May 2007, all the convertible bonds were converted as the Company shares and therefore, the Convertible Bond Committee was dissolved after the convertible bonds were fully converted.

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

Code Provisions	Compliance	Details of Compliance
• Clear terms of reference to enable proper discharge of committee functions.	Yes	• The Company currently has two Board Committees, being the Audit Committee and the Remuneration Committee, each of which has clear written terms of reference setting out details of the authorities and duties of such committee. • The terms of reference of the abovementioned Board Committees are posted on the Company's website and will be available on request.
• The terms of reference should require committees to report back to the board their decisions.	Yes	• The terms of reference of each of the Board Committees contain provisions which require such Board Committee to report back to the Board any decision made by it.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

Code Principle

The board should endeavour to maintain an on-going dialogue with shareholders and, in particular, use annual meetings or other general meetings to communicate with shareholders and encourage their participation.

Code Provisions	Compliance	Details of Compliance
• A separate resolution should be proposed by the chairman for each substantially separate issue.	Yes	• Separate resolutions are proposed at general meeting on each substantially separate issue. For example, a separate resolution will be proposed for each director nominated for election or re-election.
• The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the annual general meeting.	No	• In the year under review, the Company held one annual general meeting. • The Chairman was not able to attend the said annual general meeting in 2007 due to business trip. Alternatively, the CEO attended the said annual general meeting. • Members of the Audit Committee and the Remuneration Committee attended the said annual general meeting in 2007.
• The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	Yes	• During 2007, there was no general meeting for approving a connected transaction or any other transaction that is subject to independent shareholders' approval.

COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES *(CONTINUED)*

E.2 Voting by poll

Code Principle

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.

Code Provisions	Compliance	Details of Compliance
• Disclosure in general meeting circulars of procedures and rights of shareholders to demand a poll.	Yes	• The rights and the procedure for demanding a poll stipulated in the Articles of Association of the Company are in compliance with the requirements of the Listing Rules. Such rights and procedures are set out in the circular accompanying the notice of general meeting dispatched to shareholders. The poll procedures are also explained to shareholders at general meetings.
• Ensure that votes cast are properly counted and recorded.	Yes	• It is the practice of the Company to appoint representatives of the share registrar of the Company as scrutineer for the voting procedure.
• Chairman of meeting should adequately explain the procedures for demanding a poll by shareholders and the poll procedures at the commencement of meeting.	Yes	• At the annual general meeting held in the year under review, the chairman of meeting explained the procedures for demanding a poll by shareholders and the poll procedures at the commencement of the meeting.

Additional Corporate Governance Information

I. Shareholders' rights

The Company is committed to ensure shareholders' interest. To this end, the Company communicates with its shareholders through various channels, including annual general meetings, extraordinary general meetings (if any), annual reports, notices of general meetings, circulars sent to shareholders, announcements, press releases and other corporate communications available on the Company's website.

Registered shareholders are notified by post for the shareholders' meetings. Any registered shareholder is entitled to attend annual and extraordinary general meetings of the Company provided that their shares have been fully paid up and recorded in the register of members of the Company. In respect the financial year ended 31 December 2007, an annual general meeting of the Company will be held on 27 May 2008 and it is currently expected that interim results for the six months ended 30 June 2008 will be announced in September 2008.

Pursuant to article 72 of the Articles of Association of the Company, any two or more members of the Company or any one member of the Company which is a recognised clearing house (or its nominee(s)) may convene a general meeting by depositing at the principal office of the Company in Hong Kong the written requisition specifying the objects of the meeting and signed by the requisitionist(s), provided that such requisitionist(s) hold(s) as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

Additional Corporate Governance Information (continued)

I. Shareholders' rights (continued)

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

Shareholders can make enquiries or proposals to the Company by putting their enquiries or proposals to the Company using the contact details listed under the Section headed "Investor relations" below.

II. Investor relations

The Company regards communication with institutional and other investors as an important means to enhance the transparency of the Group and collecting views and feedbacks from such investors. The Group has an Investor Relations Department to handle matter relating to investor relations. In the year under review, the executive Directors and senior management of the Company participated in 6 international investors' conferences, as well as 2 international road shows covering China, Germany, Hong Kong, Italy, Japan, Singapore, the UK and the US, to communicate with existing shareholders and the investment community in respect of the Group's latest results, prospects and development strategies. In addition, the Company also maintains communication with the media through press conferences, news releases to the media and on the Company's website, and answering enquiries from the media.

Shareholders, investors and the media can make enquiries to the Company through the following means:

Hotline telephone number:	(852) 2528 5666
By fax:	(852) 2865 7204
By post:	Rooms 3101-03, 31/F., Tower 1 Lippo Centre, 89 Queensway, Hong Kong
Attention:	Mr. Wilson Cheng
By email:	xinao@xinaogas.com

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF XINAO GAS HOLDINGS LIMITED
新奧燃氣控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Xinao Gas Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 75 to 164, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong

22 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000 (Restated)
Revenue	7	**5,756,270**	3,396,536
Cost of sales		**(4,006,271)**	(2,214,078)
Gross profit		**1,749,999**	1,182,458
Other income	8	**231,049**	184,938
Selling expenses		**(83,729)**	(59,154)
Administrative expenses		**(855,127)**	(628,478)
Fair value changes on derivative financial instruments		**46,012**	(1,854)
Fair value changes on convertible bonds		**(3,370)**	(4,392)
Impairment loss on goodwill	18	**(50,606)**	–
Loss on disposal of property, plant and equipment		**(33,517)**	(7,273)
Impairment loss on property, plant and equipment	15	**(11,535)**	–
Share of results of associates		**(6,501)**	4,685
Share of results of jointly controlled entities		**113,015**	66,126
Finance costs	9	**(281,173)**	(203,424)
Profit before taxation	10	**814,517**	533,632
Taxation	12	**(108,373)**	(49,772)
Profit for the year		**706,144**	483,860
Attributable to:			
Equity holders of the Company		**507,520**	379,617
Minority interests		**198,624**	104,243
		706,144	483,860
Dividends	13		
– Paid		**77,274**	46,333
– Proposed		**126,880**	75,923
		2007 RMB	2006 RMB
Earnings per share	14		
– Basic		**51.3 cents**	40.5 cents
– Diluted		**50.3 cents**	38.7 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	15	**6,760,741**	5,191,837
Prepaid lease payments	16	**432,479**	375,200
Investment properties	17	**94,450**	70,885
Goodwill	18	**153,630**	184,267
Intangible assets	19	**469,504**	267,386
Interests in associates	20	**386,111**	340,173
Interests in jointly controlled entities	21	**483,672**	295,530
Available-for-sale financial assets	22	**13,733**	18,420
Amount due from an associate	23	**138,000**	83,000
Amount due from a jointly controlled entity	24	**89,000**	69,000
Deposits paid for investments in joint ventures		**24,133**	54,725
Deposits paid for acquisition of property, plant and equipment		**400**	14,491
		9,045,853	6,964,914
Current assets			
Inventories	25	**235,356**	171,218
Trade and other receivables	26	**1,069,957**	797,895
Prepaid lease payments	16	**9,026**	6,587
Amounts due from customers for contract work	27	**335,910**	311,243
Amounts due from associates	23	**48,585**	67,558
Amounts due from jointly controlled entities	24	**68,719**	46,255
Amounts due from related companies	28	**43,273**	101,784
Cash and cash equivalents	29	**1,693,459**	1,567,552
		3,504,285	3,070,092
Current liabilities			
Trade and other payables	30	**2,205,060**	1,625,959
Derivative financial liabilities	31	**–**	46,012
Amounts due to customers for contract work	27	**305,644**	279,902
Amounts due to associates	23	**116,411**	56,320
Amounts due to jointly controlled entities	24	**30,234**	16,484
Amounts due to related companies	32	**29,779**	18,032
Taxation payable		**35,846**	36,088
Bank and other loans – due within one year	33	**834,779**	619,140
Short-term debenture	34	**398,375**	–
Financial guarantee liability	35	**1,353**	1,502
		3,957,481	2,699,439
Net current (liabilities) assets		**(453,196)**	370,653
Total assets less current liabilities		**8,592,657**	7,335,567

	Notes	2007 RMB'000	2006 RMB'000
Capital and reserves			
Share capital	36	**106,318**	102,825
Reserves		**3,629,229**	2,953,835
Equity attributable to equity holders of the Company		**3,735,547**	3,056,660
Minority interests		**925,111**	811,768
Total equity		**4,660,658**	3,868,428
Non-current liabilities			
Bank and other loans – due after one year	33	**2,387,513**	1,750,738
Financial guarantee liability	35	**–**	1,228
Convertible bonds	37	**–**	127,597
Guaranteed notes	38	**1,433,657**	1,525,461
Deferred taxation	39	**110,829**	62,115
		3,931,999	3,467,139
		8,592,657	7,335,567

The consolidated financial statements on pages 75 to 164 were approved and authorised for issue by the Board of Directors on 22 April 2008 and are signed on its behalf by:

Wang Yusuo
DIRECTOR

Yu Jianchao
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company										
	Share capital RMB'000 (Note 36)	Share premium RMB'000	Special reserve RMB'000 (Note a)	Share option reserve RMB'000	Statutory surplus reserve fund RMB'000 (Note b)	Property revaluation reserve RMB'000	Investment revaluation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2006	95,819	1,202,287	1,167	–	70,681	19,745	–	841,787	2,231,486	527,663	2,759,149
Surplus arising on revaluation of buildings	–	–	–	–	–	5,282	–	–	5,282	–	5,282
Deferred taxation liability on revaluation of buildings	–	–	–	–	–	(2,449)	–	–	(2,449)	–	(2,449)
Share of valuation surplus by minority shareholders	–	–	–	–	–	(1,064)	–	–	(1,064)	1,064	–
Loss on fair value change of available-for-sale financial assets	–	–	–	–	–	–	(444)	–	(444)	–	(444)
Net income recognised directly in equity	–	–	–	–	–	1,769	(444)	–	1,325	1,064	2,389
Profit for the year	–	–	–	–	–	–	–	379,617	379,617	104,243	483,860
Total recognised income and expenses for the year	–	–	–	–	–	1,769	(444)	379,617	380,942	105,307	486,249
Recognition of equity settled share based payment (Note 40)	–	–	–	57,370	–	–	–	–	57,370	–	57,370
Issue of shares on conversion of convertible bonds (Note 37)	7,006	426,189	–	–	–	–	–	–	433,195	–	433,195
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	255,461	255,461
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	(12,298)	(12,298)
Reduction in share of equity interest of a subsidiary	–	–	–	–	–	–	–	–	–	(15,144)	(15,144)
Dividend paid	–	–	–	–	–	–	–	(46,333)	(46,333)	–	(46,333)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(49,221)	(49,221)
Transfer to statutory reserves	–	–	–	–	12,582	–	–	(12,582)	–	–	–
At 31 December 2006	102,825	1,628,476	1,167	57,370	83,263	21,514	(444)	1,162,489	3,056,660	811,768	3,868,428
Effect of change in tax rate on deferred tax liability relating to property revaluation	–	–	–	–	–	2,928	–	–	2,928	–	2,928
Net deficit arising on revaluation of buildings	–	–	–	–	–	(754)	–	–	(754)	–	(754)
Deferred taxation liability on revaluation of buildings	–	–	–	–	–	428	–	–	428	–	428
Share of net valuation deficit by minority shareholders	–	–	–	–	–	572	–	–	572	(572)	–
Gain on fair value changes of available-for-sale financial assets	–	–	–	–	–	–	5,465	–	5,465	–	5,465
Net income recognised directly in equity	–	–	–	–	–	3,174	5,465	–	8,639	(572)	8,067
Transfer to profit or loss on sales of available-for-sale financial assets	–	–	–	–	–	–	(5,021)	–	(5,021)	–	(5,021)
Profit for the year	–	–	–	–	–	–	–	507,520	507,520	198,624	706,144
Total recognised income and expenses for the year	–	–	–	–	–	3,174	444	507,520	511,138	198,052	709,190

	Attributable to equity holders of the Company										
	Share capital RMB'000 (Note 36)	Share premium RMB'000	Special reserve RMB'000 (Note a)	Share option reserve RMB'000	Statutory surplus reserve fund RMB'000 (Note b)	Property revaluation reserve RMB'000	Investment revaluation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
Issue of shares on conversion of convertible bonds (Note 37)	1,638	125,600	–	–	–	–	–	–	127,238	–	127,238
Issue of shares on exercise of share options (Note 40)	1,855	138,963	–	(24,946)	–	–	–	–	115,872	–	115,872
Recognition of equity settled share based payment (Note 40)	–	–	–	21,454	–	–	–	–	21,454	–	21,454
Acquisition of business (Note 41(a)(x))	–	–	–	–	–	–	–	–	–	32,310	32,310
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	4,611	4,611
Distribution of assets to a minority shareholder (note c)	–	–	–	–	–	–	–	–	–	(13,500)	(13,500)
Acquisition of additional interests in subsidiaries	–	–	(19,541)	–	–	–	–	–	(19,541)	(8,017)	(27,558)
Dividend paid	–	–	–	–	–	–	–	(77,274)	(77,274)	–	(77,274)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(100,113)	(100,113)
Transfer to statutory reserves	–	–	–	–	74,628	–	–	(74,628)	–	–	–
At 31 December 2007	106,318	1,893,039	(18,374)	53,878	157,891	24,688	–	1,518,107	3,735,547	925,111	4,660,658

Notes:

a. The amount represents the difference between the paid-up capital of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition amounting to RMB1,167,000 during the group restructuring carried out for the purpose of initial public offering of the Company's shares in 2001 and the difference between the fair values and the carrying values of the underlying assets and liabilities attributable to the additional interests in a subsidiary amounting to RMB19,541,000. During the year, a Company's subsidiary has acquired 20% interest in another existing Company's subsidiary, 淮安新奧燃氣有限公司 at a consideration of approximately RMB27,801,000 from a minority shareholder. The difference between the fair value and the carrying amount of the net assets attributable to the 20% additional interest acquired by the Company's subsidiary, amounting to approximately RMB19,541,000 are recognised in the special reserve in accordance with the accounting policy adopted during the year (see Note 3).

b. Except for sino-foreign equity joint ventures, according to relevant laws and regulations of the People's Republic of China (the "PRC"), an entity established under the PRC Companies Law is required to make an appropriation at ten percent of the profit for the year, prepared in accordance with the PRC accounting standards, to the statutory surplus reserve fund until the balance reached 50 percent of the registered capital of that entity. The reserve appropriated can only make up the losses or use to increase the registered capital of that entity and is not distributable. The appropriation of profit for the year to the statutory surplus reserve fund of the Company's subsidiaries established under PRC Companies Law amounted to RMB74,628,000 (2006: RMB12,582,000).

c. During the year, 長沙新奧燃氣有限公司, a 55% owned subsidiary of the Company, reduced its registered capital through distribution of assets with carrying value of RMB16,500,000 and RMB13,500,000 to its immediate shareholder, 新奧(中國)燃氣投資有限公司("新奧(中國)燃氣投資"), a wholly-owned subsidiary of the Company and the minority shareholder respectively. The fair value of assets distributed is approximately to the carrying value immediate before the distribution. The assets distributed to 新奧(中國)燃氣投資 was injected as the registered capital of a newly established jointly controlled entity.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Operating activities			
Profit before taxation		**814,517**	533,632
Adjustments for:			
Share of results of associates		**6,501**	(4,685)
Share of results of jointly controlled entities		**(113,015)**	(66,126)
Fair value changes on derivative financial instruments		**(46,012)**	1,854
Gain on dilution of interest in a subsidiary		**–**	(15,144)
Discount on acquisition of a subsidiary		**–**	(5,007)
Fair value change on convertible bonds		**3,370**	4,392
Exchange gain of guaranteed notes		**(97,684)**	(45,207)
Impairment on goodwill		**50,606**	–
Impairment on available-for-sale financial assets		**107**	–
Impairment of property, plant and equipment		**11,535**	–
Loss on disposal of property, plant and equipment		**33,517**	7,273
Loss (gain) on disposal of investment properties		**162**	(784)
Gain on disposal of interest in leasehold land		**(2,475)**	(2,224)
Gain on disposal of available-for-sale financial assets		**(5,465)**	–
Increase in fair value of investment properties		**(14,381)**	(508)
Share-based payment expenses		**21,454**	57,370
Research and development expenses		**1,449**	458
Revaluation deficit of property, plant and equipment		**8,733**	1,259
Depreciation of property, plant and equipment		**225,027**	183,055
Impairment of trade and other receivables		**91,606**	48,619
Trade and other receivable recovered		**(13,476)**	(8,899)
Amortisation of intangible assets		**12,019**	10,765
Amortisation of prepaid lease payments		**6,800**	5,819
Financial guarantee income		**(1,582)**	(1,793)
Interest income		**(52,789)**	(82,563)
Interest expenses		**281,173**	203,424
Operating cash flows before movements in working capital		**1,221,697**	824,980
(Increase) decrease in inventories		**(49,682)**	1,009
Increase in trade and other receivables		**(319,826)**	(161,760)
Increase in amounts due from customers for contract work		**(24,667)**	(94,957)
Decrease (increase) in amounts due from associates		**18,973**	(14,827)
Increase in amounts due from jointly controlled entities		**(22,464)**	(6,136)
Decrease (increase) in amounts due from related companies		**58,511**	(49,666)
Increase in trade and other payables		**420,370**	581,518
Increase in amounts due to customers for contract work		**25,742**	96,824
Increase in amounts due to jointly controlled entities		**13,750**	11,564
Increase (decrease) in amounts due to associates		**60,091**	(34,506)
Increase (decrease) in amounts due to related companies		**11,747**	(1,764)
Cash generated from operating activities		**1,414,242**	1,152,279
Interest received		**52,789**	82,563
Interest paid		**(199,157)**	(119,714)
PRC enterprise income tax paid		**(108,719)**	(53,964)
Net cash from operating activities		**1,159,155**	1,061,164

	Note	2007 RMB'000	2006 RMB'000
Investing activities			
Dividend received from jointly controlled entities		**47,492**	14,578
Dividend received from associates		**1,134**	–
Purchase of property, plant and equipment		**(1,647,965)**	(1,397,996)
Purchase of investment property		**(16,684)**	–
Deposits paid for acquisition of property, plant equipment		**–**	(14,491)
Increase in prepaid lease payments		**(35,769)**	(121,750)
Acquisition of subsidiaries and businesses	41	**(166,150)**	(43,814)
Acquisition of additional interest in a subsidiary		**(27,801)**	–
Net decrease in deposits paid for investments in joint ventures		**30,592**	181,247
Investments in jointly controlled entities		**(122,459)**	(7,710)
Investments in associates		**(63,099)**	(245,287)
Acquisition of intangible assets		**(19,120)**	(69,990)
Investment in available-for-sale financial assets		**–**	(9,470)
Proceeds from disposal of property, plant and equipment		**67,931**	16,392
Proceeds from disposal of investment properties		**7,338**	2,009
Proceeds from disposal of interest in leasehold land		**4,930**	12,605
Proceeds from disposal of available-for-sale investments		**10,489**	–
Research and development expenses		**(1,449)**	(458)
Net cash used in investing activities		**(1,930,590)**	(1,684,135)
Financing activities			
Interest paid on guaranteed notes		**(113,686)**	(117,695)
Proceeds from shares issued on exercise of share options		**115,872**	–
Proceeds from issuance of short-term debentures		**398,375**	–
Contribution from minority shareholders		**4,611**	112,311
Dividends paid to minority shareholders		**(100,113)**	(49,221)
Dividends paid to shareholders		**(77,274)**	(46,333)
New bank loans raised		**1,367,202**	1,427,000
Repayment of bank loans		**(622,645)**	(824,594)
Amounts advanced to an associate		**(55,000)**	(26,000)
Amounts advanced to a jointly controlled entity		**(20,000)**	(69,000)
Decrease in pledged bank deposits		**–**	162,963
Net cash from financing activities		**897,342**	569,431
Net increase (decrease) in cash and cash equivalents		**125,907**	(53,540)
Cash and cash equivalents at beginning of the year		**1,567,552**	1,621,092
Cash and cash equivalents at end of the year		**1,693,459**	1,567,552
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		**1,693,459**	1,567,552

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 Company's Annual Report.

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

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration of the Company and its subsidiaries (collectively referred to as the "Group") in light of its net current liabilities of RMB453,196,000 as at 31 December 2007. Having considered the fund raised from the issue of short-term debenture of RMB600,000,000 subsequent to the balance sheet date as set out in Note 49(a) and the secured credit facilities of approximately RMB737,455,000 which remains unutilised at the date of approval of the consolidated financial statements, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW ACCOUNTING POLICY AND NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has adopted a new accounting policy for "Acquisition of additional interests in subsidiaries" as set out in Note 4. The adoption of this new accounting policy had no material effect to prior period of the Group. Accordingly, no prior period adjustment has been recognised. The effect on this new accounting policy to current year financial statements are set out in note a to the consolidated statement of changes in equity on page 6.

In the current year, the Group has also applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

3. APPLICATION OF NEW ACCOUNTING POLICY AND NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) – Int 12	Service Concession Arrangements[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The Directors anticipate that the application of the other new and revised standards or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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

Business combinations

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

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

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

Acquisition of additional interests in subsidiaries

On acquisition of additional interests in subsidiaries, the difference between the fair values and the carrying values of the underlying assets and liabilities attributable to the additional interests in subsidiaries acquired is charged to special reserve. Goodwill or discount arising on the purchase of the additional interests is calculated as the difference between the consideration paid/payable for the interests acquired and the increase in the Group's interests in relation to the additional interests acquired, based on the fair value of all underlying assets and liabilities of the subsidiaries.

Distribution in specie

Distribution in specie is measured at the fair value of the subsidiary's shares distributed. The difference between the carrying amount of the Group's share of the subsidiary's net assets and the fair value is recognised in the profit or loss.

Interests in associates

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

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Interests in jointly controlled entities

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entities recognised at the date of acquisition is recognised as goodwill. 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, profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entities.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operation of another entity, 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 acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity, an associate or a jointly controlled entity 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 business, 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 business, an associate or a jointly controlled entity, 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 business, an associate or a jointly controlled entity is presented separately in the consolidated balance sheet.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Revenue recognition

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

Gas connection revenue is recognised when the outcome of a contract can be estimated reliably and the stage of completion at the 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.

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

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

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

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.

4. 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

Subsidies from the relevant People's Republic of China (the "PRC") government authorities, in the form of return of income tax, value added tax not associating with the purchase of property, plant and equipment and various taxes, as an incentive for the investments in various cities in the PRC are recognised when relevant approval has been obtained.

Retirement benefit scheme contribution

The retirement benefit scheme contribution charged to the consolidated income statement represents 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.

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 reviews its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to share option reserve.

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Property, plant and equipment

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

Buildings held for use in production or supply of goods or services, or for administrative purposes are stated in the consolidated 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 revaluation increase arising on revaluation of buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated 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 includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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

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

Research and development expenditure

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

An internally-generated intangible asset arising from development 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Intangible assets acquired in a business combination (continued)

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 on tangible and intangible assets below).

Inventories

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

Gas connection contracts

When the outcome of a gas connection contract can be estimated reliably and the stage of contract completions at the 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.

Financial instruments

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

Financial assets

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Effective interest method

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

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

Loans and receivables

Loans and receivables (including trade and other receivables, amounts due from customers for contract work, amounts due from associates, amounts due from jointly controlled entities and amounts due from related companies and cash and cash equivalents) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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 (see accounting policy on impairment loss on financial assets below).

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 (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. 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.

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.

Financial liabilities and equity

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Effective interest method

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

Interest expense is recognised on an effective interest basis other than those financial liability designated as at FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Convertible bonds at fair value through profit or loss

Convertible bonds that will or may not be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are accounted as financial liabilities with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risk and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss.

The convertible bonds with embedded derivatives as a whole are designated as financial liabilities at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, the entire convertible bond is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Transaction costs that are directly attributable to the issue of the convertible bond designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Other financial liabilities

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

Equity instruments

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

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 contact at the higher of: (i) the amount determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "*Revenue*".

Derecognition

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Revenue recognition of gas connection contract

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

Depreciation of property, plant and equipment

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

Estimated impairment of goodwill

The carrying value of goodwill at 31 December 2007 is amounted to RMB153,630,000 (2006: RMB184,267,000). Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the calculation of the recoverable amount are set out in Note 18.

Estimated impairment of trade and other receivables

The Group makes impairment of trade and other receivables based on an assessment of the recoverability of receivables. Impairment loss are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible or when the net present value of the receivable is less than the carrying amount of the receivable. The identification of impairment loss requires the use of judgment and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other receivables and the impairment in the periods in which such estimate has been changed. At 31 December 2007, the carrying amount of trade and other receivable is RMB728,780,000 (2006: RMB480,356,000). Details of movement in impairment on trade and other receivables are set out in Note 26.

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern; to maintain the confidence of creditors; to sustain future development of the entities and to maximise the return to the equity holders of the entities. The capital structure of the Group consists of net debts (borrowings disclosed in Notes 33, 34, 37 and 38, net of cash and cash equivalents) and total equity of the Group.

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

	2007 RMB'000	2006 RMB'000
Bank and other loans	**3,222,292**	2,369,878
Short-term debenture	**398,375**	–
Convertible bonds	**–**	127,597
Guaranteed notes	**1,433,657**	1,525,461
	5,054,324	4,022,936
Less: Cash and cash equivalents	**(1,693,459)**	(1,567,552)
Net debt	**3,360,865**	2,455,384
Total equity	**4,660,658**	3,868,428

	2007	2006
Net debt to total equity ratio	**72%**	63%

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

b. Financial risk management objectives and policies

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

Currency risk

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

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

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

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

Currency risk (continued)

The carrying amounts of the Group's foreign currency denominated assets and liabilities at the balance sheet date are as follows:

	Assets		Liabilities	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Foreign currency:				
United States Dollar ("USD")	**2,956**	2,746	**1,543,226**	1,701,121
Hong Kong Dollar ("HKD")	**120,356**	16,510	**18,370**	136,613

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

	United States Dollar		Hong Kong Dollar	
	2007	2006	**2007**	2006
Possible change in exchange rate	**5%**	5%	**5%**	5%

	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
(Decrease) Increase in profit for the year:				
– if RMB weakens against foreign currencies	**(75,206)**	(82,021)	**5,100**	(6,005)
– if RMB strengthens against foreign currencies	**75,206**	82,201	**(5,100)**	6,005

Interest rate risk

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

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to non-current amount due from an associate and a jointly controlled entity, fixed-rate bank and other loans, short-term debenture and guaranteed notes (see Notes 23, 24, 33, 34 and 38 for details of these loans, debenture and notes respectively).

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

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

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

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate bank loans (see Note 33 for details of these loans).

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

	2007 RMB'000	2006 RMB'000
Reasonably possible change in interest rate	**27 basis points**	27 basis points
(Decrease) increase in profit for the year		
– as a result of increase in interest rate	**(7,012)**	(4,366)
– as a result of decrease in interest rate	**7,012**	4,366

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

Price risk

The Group was exposed to equity price risk through its investment in equity securities with carrying value of RMB13,733,000 (2006: RMB18,420,000) which was classified as available-for-sale financial assets and covertible bonds with carrying value of RMB127,597,000 on the consolidated balance sheet at 31 December 2006. Certain available-for-sale financial assets were disposed of and the convertible bonds were fully converted into ordinary shares during the year ended 31 December 2007. Sensitivity analysis for price risk is not presented as the available-for-sale financial assets as at 31 December 2007 are made up of unlisted equity securities which are measured at cost less impairment.

Credit risk

As at 31 December 2007, 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 of contingent liability in relation to the financial guarantee contracts disclosed in Note 35.

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 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 international and PRC banks and banks with high credit-ratings assigned by international credit-rating agencies.

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

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for all trade receivables at 31 December 2006 and 2007.

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk

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

The Group relies on bank and other loans as a significant source of liquidity. As at 31 December 2007, the Group has available unutilised short-term bank loan facilities of approximately RMB737,455,000 (2006: RMB825,000,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in maturity analysis which are not included in the carrying amount of the financial liability on the consolidated balance sheets.

	Weighted average effective interest rate %	Within one year RMB'000	Within the second year RMB'000	Within the third years RMB'000	Within the forth years RMB'000	Within the fifth years RMB'000	Over five years RMB'000	Adjustments RMB'000	Carrying amount at balance sheet date RMB'000
At 31 December 2006									
Trade and other payables	–	1,076,342	154	–	–	–	–	–	1,076,496
Amount due to associates	–	56,320	–	–	–	–	–	–	56,320
Amount due to jointly controlled entities	–	16,484	–	–	–	–	–	–	16,484
Amount due to related companies	–	18,032	–	–	–	–	–	–	18,032
Bank and other loans	6.22%	755,480	274,757	212,637	130,769	226,920	1,433,721	(664,406)	2,369,878
Guaranteed notes	7.92%	115,178	115,178	115,178	115,178	115,178	1,676,918	(727,347)	1,525,461
Convertible bonds	–	–	–	97,627	–	–	–	29,970	127,597
		2,037,836	390,089	425,442	245,947	342,098	3,110,639	(1,361,783)	5,190,268
At 31 December 2007									
Trade and other payables	**–**	**1,320,476**	**1,685**	**4**	**–**	**–**	**–**	**–**	**1,322,165**
Amount due to associates	**–**	**116,411**	**–**	**–**	**–**	**–**	**–**	**–**	**116,411**
Amount due to jointly controlled entities	**–**	**30,234**	**–**	**–**	**–**	**–**	**–**	**–**	**30,234**
Amount due to related associates	**–**	**29,779**	**–**	**–**	**–**	**–**	**–**	**–**	**29,779**
Bank and other loans	**6.5%**	**1,033,078**	**311,800**	**224,444**	**318,183**	**361,774**	**1,937,498**	**(964,485)**	**3,222,292**
Short-term debenture	**5.75%**	**398,375**	**–**	**–**	**–**	**–**	**–**	**–**	**398,375**
Guaranteed notes	**7.92%**	**115,178**	**115,178**	**115,178**	**115,178**	**1,676,918**	**–**	**(703,973)**	**1,433,657**
		3,043,531	**428,663**	**339,626**	**433,361**	**2,038,692**	**1,937,498**	**(1,668,458)**	**6,552,913**

At 31 December 2007 and 2006, it was not probable that the counterparties to the financial guarantees will claim under the contracts. Consequently, the carrying amount of financial guarantee contracts of RMB1,353,000 (2006: RMB2,730,000) has not been presented above.

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk (continued)

The contractual expiry periods of financial guarantees at the balance sheet date are as follows:

	2007		2006	
	RMB'000	**Expiry period**	RMB'000	Expiry period
Guarantees given to banks in respect of banking facilities utilised by:				
Jointly controlled entities	**40,000**	**2008**	57,000	2007-2008
Associates	**43,000**	**2008**	40,000	2008
	83,000		97,000	

Categories and fair value of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the balance sheet date are set out as follows:

	2007 RMB	2006 RMB
Financial assets		
Available-for-sale financial assets	**13,733**	18,420
Loans and receivables	**3,145,726**	2,726,748
Financial liabilities		
Financial liabilities stated at amortised cost	**6,552,913**	5,062,671
Financial guarantee liability	**1,353**	2,730
Financial liabilities designated as fair value through profit and loss	**–**	173,609

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

– The fair value of financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions; and

– The fair value of non-optional derivative instrument is calculated using quoted prices or where quoted prices are not available, the fair value is estimated using discounted cash flow analysis and the applicable curve for the duration of the instruments. For option based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

Included in available-for-sale financial assets at 31 December 2007 are amounts of RMB13,733,000 (2006: RMB13,840,000) which are stated at cost less impairment. As these investments are unlisted and the ranges of reasonable fair value estimates are significant, the Directors are of the opinion that their fair values cannot be measured reliably.

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

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

Categories and fair value of financial instruments (continued)

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

	2007		2006	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Amount due from an associate	**138,000**	**136,217**	83,000	82,824
Amount due from a jointly controlled entity	**89,000**	**87,638**	69,000	68,773
Fixed-rate bank loans	**489,857**	**487,870**	672,961	672,961
Guaranteed notes	**1,433,657**	**1,434,260**	1,525,461	1,601,763

7. REVENUE

	2007 RMB'000	2006 RMB'000
Revenue comprises the following:		
Sales of goods		
Sales of piped gas	**2,641,417**	1,623,510
Distributions of bottled liquefied petroleum gas	**1,092,226**	282,606
Sales of gas appliances	**97,548**	135,528
	3,831,191	2,041,644
Provision of service		
Gas connection fees	**1,925,079**	1,354,892
	5,756,270	3,396,536

8. OTHER INCOME

	2007 RMB'000	2006 RMB'000
Included in other income are:		
Incentive subsidies (note a)	**28,216**	14,343
Interest income	**52,789**	82,563
Compensation received	**1,865**	–
Gain on foreign exchange, net	**96,802**	41,251
Gain on disposal of investment properties	**–**	784
Gain on disposal of interest in leasehold land	**2,475**	2,224
Gain on disposal of available-for-sale financial assets	**5,465**	–
Pipeline transmission income	**2,724**	1,554
Rental income from investment properties, net (note b)	**3,196**	4,244
Repairs and maintenance income	**2,782**	1,582
Increase in fair value of investment properties	**14,381**	508
Discount on acquisition (Note 41(b)(i))	**–**	5,007
Gain on dilution of interest in a subsidiary (Note 41(b)(iii))	**–**	15,144
Income from conversion of fuel pipes of vehicles	**4,214**	3,054
Financial guarantee income	**1,582**	1,793

Notes:

(a) The amount represents refunds of various taxes as incentives by the government authorities in various cities of the PRC.

(b) The outgoing expenses deducted from the gross rental income of investment properties amounted to RMB52,000 (2006: RMB68,000).

9. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on:		
Bank and other loans wholly repayable within five years	**84,509**	46,096
Bank loans not wholly repayable within five years	**112,128**	73,618
Guaranteed notes	**116,501**	121,724
Short-term debenture	**2,520**	–
	315,658	241,438
Less: Amount capitalised under construction in progress (note)	**(34,485)**	(38,014)
	281,173	203,424

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

10. PROFIT BEFORE TAXATION

	2007 RMB'000	2006 RMB'000
Profit before taxation has been arrived at after (crediting) charging:		
Impairment of trade and other receivables	**91,606**	48,619
Trade and other receivables recovered	**(13,476)**	(8,899)
Amortisation of intangible assets (included in cost of sales)	**12,019**	10,765
Amortisation of prepaid lease payments	**6,800**	5,819
Auditors' remuneration	**7,310**	5,710
Depreciation of property, plant and equipment	**225,027**	183,055
Loss on disposal of investment properties	**162**	–
Revaluation deficit on property, plant and equipment	**8,733**	1,259
Minimum lease payments under operating leases in respect of land and buildings recognised in consolidated income statement	**12,577**	10,606
Research and development expenses (included in administrative expenses)	**1,449**	458
Share-based payment expenses, including directors' emoluments (included in administrative expenses)	**21,454**	57,370
Other staff costs, including directors' emoluments	**474,377**	327,387
Less: Amount capitalised under construction in progress	**(17,215)**	(12,463)
	478,616	372,294
Share of tax of associates (included in share of results of associates)	**6,468**	1,155
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	**12,993**	792

11. REMUNERATION OF DIRECTORS AND EMPLOYEES

(a) Directors' emoluments

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

	2007					
Name of director	Fee RMB'000	Salaries and allowance RMB'000	Discretionary performance bonus RMB'000	Share base payment RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Wang Yusuo	–	1,383	–	–	–	1,383
Yang Yu	–	1,087	–	2,522	–	3,609
Chen Jiacheng	–	922	216	2,342	59	3,539
Zhao Jinfeng	–	600	–	2,342	6	2,948
Qiao Limin	–	444	–	2,342	–	2,786
Jin Yongsheng	133	–	–	–	–	133
Yu Jianchao	–	444	–	2,342	–	2,786
Cheung Yip Sang	–	954	372	2,054	29	3,409
Cheng Chak Ngok	–	533	–	288	12	833
Zhao Baoju	103	–	–	–	–	103
Wang Guangtian	103	–	–	–	–	103
Yien Yu Yu, Catherine	133	–	–	–	–	133
Kong Chung Kau	133	–	–	–	–	133
	605	6,367	588	14,232	106	21,898

11. REMUNERATION OF DIRECTORS AND EMPLOYEES *(continued)*

(a) Directors' emoluments *(continued)*

	2006				
Name of director	Fee RMB'000	Salaries and allowance RMB'000	Share base 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	–	1	296
Yu Jianchao	–	414	6,463	–	6,877
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

The amounts disclosed above include directors' fees of RMB369,000 (2006: RMB310,000) 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 2007 and 2006 were all directors of the Company and details of their emoluments are included in note (a) above.

12. TAXATION

	2007 RMB'000	2006 RMB'000
PRC Enterprise Income Tax:		
Current tax	**111,956**	58,360
Overprovision in prior years	**(3,479)**	(5,747)
	108,477	52,613
Deferred tax (Note 39):		
Current year	**5,702**	(2,841)
Attributable to a change in tax rate	**(5,806)**	–
	(104)	(2,841)
	108,373	49,772

The charge represents PRC Enterprise Income Tax for both years.

12. TAXATION *(continued)*

Pursuant to the relevant laws and regulations in the PRC, the statutory PRC Enterprise Income Tax rate of 33% is applied to the Group entities except for entities that are entitled to different concessionary tax rates as disclosed below.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC Enterprise Income Tax for the following three years ("2+3" tax preference). The PRC Enterprise Income Tax rates applicable to these subsidiaries range from 15% to 33% and the reduced tax rates for the relief period range 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. The tax benefit will expire during the period from year 2008 to 2012.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The new PRC Enterprise Income Tax rate for domestic and foreign enterprises was unified to 25% effective from 1 January 2008 under the New Law and Implementation Regulations.

On 26 December 2007, the State Council of the PRC issued a Circular on the implementation of transitional preferential policies for PRC Enterprise Income Tax. Entities that are currently entitled preferential tax rates under the old PRC Enterprise Income Tax Law can gradually transit to the new tax rate of 25% within 5 years after the enforcement of the New Law at a tax rate of 18%, 20%, 22%, 24% and 25% in year 2008, 2009, 2010, 2011 and 2012 respectively.

Entities that originally enjoy the "2+3" tax preference can continue enjoying the tax preference based on the original tax rate until after the expiration of the tax preference. Entities that did not start "2+3" tax preference before 2008 because they were still in loss position shall start the "2+3" tax preference from 2008.

The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

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

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

	2007 RMB'000	2006 RMB'000
Profit before taxation	**814,517**	533,632
Tax at the PRC enterprise income tax rate of 33%	**268,791**	176,099
Tax effects of:		
Share of results of associates	**2,145**	(1,546)
Share of results of jointly controlled entities	**(37,295)**	(21,822)
Income not taxable for tax purpose	**(69,915)**	(18,217)
Expenses not deductible for tax purpose	**92,579**	54,729
Tax losses not recognised	**85,887**	56,321
Utilisation of tax losses previously not recognised	**(16,725)**	(896)
Deductible temporary differences not recognised	**46,105**	7,860
Tax concession and exemption granted to PRC subsidiaries	**(11,865)**	(18,030)
Different tax rates of subsidiaries	**(247,855)**	(178,979)
Overprovision in respect of prior year	**(3,479)**	(5,747)
Income tax charge for the year	**108,373**	49,772

In addition to the income tax expense charged to consolidated income statement, a deferred tax credit of RMB3,356,000 (2006: deferred tax charge of RMB2,449,000) has been recognised in equity in the year (see Note 39).

13. DIVIDENDS

	2007 RMB'000	2006 RMB'000
Final dividend paid in respect of 2006 of HKD7.75 cents (2006: 2005 final dividend of HKD4.81 cents) per share (equivalent to approximately RMB7.79 cents per share (2006: 2005 final dividend of RMB5.00 cents per share))	**77,274**	46,333
Final dividend proposed in respect of 2007 of HKD13.42 cents (2006: 2006 proposed final dividend of HKD7.75 cents) per share (equivalent to approximately RMB12.57 cents per share (2006: 2006 proposed final dividend of RMB7.79 cents per share))	**126,880**	75,923

The final dividend in respect of 2007 of HKD13.42 cents (2006: HKD7.75 cents) (equivalent to approximately RMB12.57 cents (2006: RMB7.79 cents) per share on 1,009,759,397 shares (2006: 973,958,599 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 equity holders of the Company is based on the following data:

	2007 RMB'000	2006 RMB'000
Earnings		
Earnings for the purposes of basic earnings per share	**507,520**	379,617
Effect of dilutive potential ordinary shares:		
Fair value changes on convertible bonds	**3,370**	4,392
Earnings for the purposes of diluted earnings per share	**510,890**	384,009

	2007 Number of shares	2006 Number of shares
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**989,917,751**	936,924,000
Effect of dilutive potential ordinary shares:		
– share options	**20,084,759**	2,344,500
– convertible bonds	**5,520,262**	53,826,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,015,522,772**	993,094,500

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST/VALUATION							
At 1 January 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)
Adjustment on valuation	(15,534)	–	–	–	–	–	(15,534)
At 1 January 2007	409,734	3,482,009	316,139	249,532	126,891	988,653	5,572,958
Acquisition of subsidiaries	17,158	192,381	11,811	4,575	2,149	5,286	233,360
Additions	120,875	157,573	49,775	23,151	134,875	1,210,292	1,696,541
Reclassification	137,007	904,930	33,681	365	413	(1,076,396)	–
Disposals	(4,844)	(93,244)	(36,062)	(10,815)	(4,475)	–	(149,440)
Adjustment on valuation	(23,983)	–	–	–	–	–	(23,983)
At 31 December 2007	655,947	4,643,649	375,344	266,808	259,853	1,127,835	7,329,436
Comprising:							
At cost	–	4,643,649	375,344	266,808	259,853	1,127,835	6,673,489
At valuation 2007	655,947	–	–	–	–	–	655,947
	655,947	4,643,649	375,344	266,808	259,853	1,127,835	7,329,436
DEPRECIATION AND AMORTISATION/IMPAIRMENT							
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)
Adjustment on valuation	(19,557)	–	–	–	–	–	(19,557)
At 1 January 2007	–	238,784	67,194	53,023	22,120	–	381,121
Provided for the year	15,612	131,563	25,623	31,884	20,345	–	225,027
Impairment loss recognised	–	6,023	–	–	–	5,512	11,535
Eliminated on disposals	(1,116)	(8,747)	(12,486)	(8,735)	(3,408)	–	(34,492)
Adjustment on valuation	(14,496)	–	–	–	–	–	(14,496)
At 31 December 2007	–	367,623	80,331	76,172	39,057	5,512	568,695
CARRYING VALUES							
At 31 December 2007	655,947	4,276,026	295,013	190,636	220,796	1,122,323	6,760,741
At 31 December 2006	409,734	3,243,225	248,945	196,509	104,771	988,653	5,191,837

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

At the balance sheet date, the Group is in the process of obtaining title deeds for its buildings in the PRC amounting to approximately RMB238,000,000 (2006: RMB166,830,000). 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 2007, resulting in a revaluation deficit of RMB9,487,000 (2006: surplus of RMB4,023,000), of which RMB754,000 (2006: credited RMB5,282,000) has been debited to the property revaluation reserve and RMB8,733,000 (2006: RMB1,259,000) has been debited to consolidated income statement. The valuation was carried out by Knight Frank Petty Limited, an independent firm of qualified professional valuers, on an open market value basis. Knight Frank Petty Limited has appropriate qualifications and recent experiences in the valuation of similar properties in relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. At 31 December 2007, the carrying value of these revalued buildings amounted to RMB655,947,000 (2006: RMB409,734,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation of RMB569,969,000 (2006: RMB368,535,000).

During the year, the Directors conducted a review of the manufacturing assets and construction in progress of certain subsidiaries and determined that a number of those assets were impaired as they can only be used in business that had been ceased by the subsidiaries in current year or production method that the subsidiaries no longer use. The recoverable amounts of the relevant assets, which have been determined on the basis of their fair value less cost to sell, was estimated to be less than their carrying amounts, accordingly, impairment losses of pipelines and construction in progress of RMB6,023,000 and RMB5,512,000 respectively have been recognised.

16. PREPAID LEASE PAYMENTS

Operating leases prepayment in respect of:

	2007 RMB'000	2006 RMB'000
Land in Hong Kong under long leases	**15,530**	15,884
Land in the PRC under medium term land use rights	**425,975**	365,903
	441,505	381,787
Analysed for reporting purposes as:		
Non-current portion	**432,479**	375,200
Current portion	**9,026**	6,587
	441,505	381,787

16. PREPAID LEASE PAYMENTS *(continued)*

At the balance sheet date, the Group is in the process of obtaining land use right certificates for the land in the PRC amounting to approximately RMB24,871,000 (2006: RMB9,166,000). 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 2006	71,602
Disposal during the year	(1,225)
Net increase in fair value recognised in the consolidated income statement	508
At 31 December 2006	70,885
Additions	16,684
Disposal during the year	(7,500)
Net increase in fair value recognised in consolidated the income statement	14,381
At 31 December 2007	94,450

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.

	2007 **RMB'000**	2006 RMB'000
The carrying value of investment properties shown above comprises operating leases in respect of:		
Land in Hong Kong under long lease	**44,642**	12,841
Land in PRC under medium term lease	**49,808**	58,044
	94,450	70,885

The fair value of the Group's investment properties at 31 December 2007 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited ("Knight Frank Petty"), an independent firm of qualified professional valuers, on an open market value basis. Knight Frank Petty Limited has appropriate qualifications and recent experiences in the valuation of similar properties in relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The Group has pledged certain of its investment properties amounting to RMB58,387,000 (2006: RMB47,980,000) to secure general banking facilities and mortgage loan granted to the Group.

The property rental income, net of outgoing expenses of RMB52,000 (2006: RMB68,000) earned by the Group from its investment properties, all of which is leased out under operating leases, amounted to RMB3,196,000 (2006: RMB4,244,000).

18. GOODWILL

	2007 RMB'000	2006 RMB'000
COST		
At beginning of the year	**184,267**	133,046
Arising on:		
Acquisition of businesses (Note 41)	**19,726**	51,282
Acquisition of additional interest in a subsidiary (note)	**243**	–
Eliminated on deregistration of a subsidiary	**–**	(61)
At end of the year	**204,236**	184,267
IMPAIRMENT		
At beginning of the year	**–**	–
Impairment loss recognised in the year	**(50,606)**	–
At end of the year	**(50,606)**	–
CARRYING AMOUNTS		
At end of the year	**153,630**	184,267

Note: The amount represents goodwill arose from acquisition of the remaining 20% of registered capital of a then 80% own subsidiary, 淮安新奧燃氣有限公司, at a consideration of RMB27,801,000 during the year ended 31 December 2007.

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

The Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill has been allocated to the following cash generating units (CGUs). At balance sheet date, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of:

	2007 RMB'000	2006 RMB'000
Sales of piped gas business located in Lianyungang, the PRC	**17,628**	17,628
Gas connection division located in Jinhua, the PRC	**–**	13,626
Sales of piped gas business located in Kaifeng, the PRC	**15,833**	15,833
Sales of piped gas business located in Hangzhou Xiaoshan, the PRC	**37,011**	37,011
Gas connection division located in Zhanjiang, the PRC	**–**	36,980
Other CGUs	**83,158**	63,189
	153,630	184,267

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.

18. GOODWILL *(continued)*

The Group prepares cash flow forecasts derived from the most recent 15 financial years, which represent the average project life. For the purpose of impairment testing, the calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period. The cashflows beyond the 5-year period are extrapolated using an estimated growth pattern at growth rates between 1.30% to 26.76% (2006: 1.3% to 19.84%), and discount rate of 8% (2006: 10%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The financial budgets and growth rates used in the cash flow forecasts are estimated according to the average project life and the stage of each operation with reference to the development curve of the natural gas industry in the PRC region. This pattern is consistent with the track record of the Group's projects.

During the year, the Directors had conducted a review of the carrying value of goodwill. As a result of the continuing under-performance of the businesses, an aggregate amount of RMB50,606,000 in respect of goodwill arising from acquisition of 金華新奧燃氣有限公司 and 湛江新奧燃氣有限公司, representing cash generating units under gas connection division, was identified to be fully impaired and the corresponding impairment losses were recognised in the consolidated income statement.

19. INTANGIBLE ASSETS

	Rights of operation RMB'000	**Customer base** RMB'000	**Total** RMB'000
COST			
At 1 January 2006	56,800	2,790	59,590
Addition (note a)	69,990	–	69,990
Acquired on acquisition of businesses (Note 41)	123,370	27,520	150,890
At 1 January 2007	250,160	30,310	280,470
Addition (note b)	19,120	–	19,120
Acquired on acquisition of businesses (Note 41)	182,920	12,097	195,017
At 31 December 2007	452,200	42,407	494,607
AMORTISATION			
At 1 January 2006	2,319	–	2,319
Charge for the year	9,659	1,106	10,765
At 1 January 2007	11,978	1,106	13,084
Charge for the year	10,493	1,526	12,019
At 31 December 2007	22,471	2,632	25,103
CARRYING VALUES			
At 31 December 2007	492,729	39,775	469,504
At 31 December 2006	238,182	29,204	267,386

Notes:

(a) During the year ended 31 December 2006, 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) During the year ended 31 December 2007, the Group acquired certain gas station operation rights from the local government of Luoyang City and Shantou City in the PRC. The operation rights is amortised over the operation periods range from 8 to 20 years.

(c) All other rights of operation and customer base are amortised on a straight-line method over the operation periods ranging from 18 to 50 years.

20. INTERESTS IN ASSOCIATES

	2007 RMB'000	2006 RMB'000
Cost of unlisted investment	**387,724**	335,673
Share of post-acquisition (losses) profits, net of dividend received	**(1,613)**	4,500
	386,111	340,173

Details of the Group's associates as at 31 December 2007 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	– (note a)	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 b)	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 Xinao 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 Industry Company Limited")	Incorporated	The PRC	**30%**	Sales of piped gas
咸陽新奧燃氣有限公司 ("Xianyang Xinao Gas Company Limited")	Incorporated	The PRC	**40%**	Sales of piped gas

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
上海新奧九環車用能源股份有限公司 ("Shanghai Xinao Jiuhuan Vehicle Gas Joint-stock Company Limited")	Incorporated	The PRC	**54.57%** (note c)	Sales of liquid petroleum gas
上海九環汽車天然汽發展有限公司 ("Shanghai Jiuhuan Vehicle Natural) Gas Development Company Limited")	Incorporated	The PRC	**56.37%** (note d)	Sales of compressed natural gas
上海九環交通大眾油氣供應有限公司 ("Shanghai Jiuhuan Public Transportation Gas Supplies Company Limited")	Incorporated	The PRC	**47.29%**	Sales of liquid petroleum gas
上海九環大眾油汽供應有限公司 ("Shanghai Jiuhuan Public Gas Supplies Company Limited")	Incorporated	The PRC	**40.91%**	Sales of liquid petroleum gas
新能能源有限公司 ("Xinneng Energy Company Limited")	Incorporated	The PRC	**15%** (note e)	Design, construction, equipment installation and operation of a greenfield coal-to-methanol conversion plant
洛陽市億能工貿有限責任公司 ("Luoyang Yineng Company Limited")	Incorporated	The PRC	**25%** (note f)	Sales of piped gas and gas application

Notes:

(a) The Group acquires all business of the associate during the year and the associate was deregistered during the year. Please refer to Note 41(a)(x) for details.

(b) The Group holds direct interest of 38% and indirect effective interest of 30% through a jointly controlled entity, Dongguan Xinao Gas Company Limited ("Dongguan Xinao"). The Group holds 49% of the registered capital of Dongguan Xinao. Dongguan Xinao holds 62% of the registered capital of Beihai Xinao Gas Company Limited ("Beihai Xinao") and controls the composition of the board of directors of Beihai Xinao and therefore, the Group does not have control. The directors of the Company consider that the Group exercises significant influence over Beihai Xinao Gas and it is therefore classified as an associate of the Group.

(c) The Group holds 54.57% of the registered capital of Shanghai Xinao Jiuhuan Vehicle Gas Joint-stock Company Limited, which is formerly known as Shanghai Jiuhuan Motor Liquid Petroleum Gas Company Limited. However, under the joint venture agreement, the Group does not have the power to govern the financial and operating policies of the entity as all such decision must be approved by more than two-third of the directors and it is therefore classified as an associate of the Group.

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

(e) 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.

(f) The Group holds indirect interest of 25% through a 70% owned subsidiary in the registered capital of 洛陽市明炬燃氣工程有限責任公司. 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.

20. INTERESTS IN ASSOCIATES *(continued)*

Included in the cost of investment in associates is goodwill of RMB64,314,000 (2006: RMB71,111,000) arising on acquisitions of associates. The movement of goodwill is set out below:

	2007 RMB'000	2006 RMB'000
At beginning of the year	**71,111**	6,797
Eliminated on deregistration of an associate (Note 41(a)(x))	**(6,797)**	–
Arising on acquisition of associates	**–**	64,314
At end of the year	**64,314**	71,111

At the balance sheet date, the carrying amount of goodwill represents goodwill arising from the acquisition of:

Name of associate	2007 RMB'000	2006 RMB'000
鹽城常建燃氣有限公司	**–**	6,797
咸陽新奧燃氣有限公司	**16,646**	16,646
上海新奧九環車用能源股份有限公司	**35,423**	35,423
上海九環交通大眾油氣供應有限公司	**1,019**	1,019
上海九環大眾油氣供應有限公司	**11,226**	11,226
	64,314	71,111

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

	2007 RMB'000	2006 RMB'000
Total assets	**3,007,232**	1,582,853
Total liabilities	**(1,686,031)**	(737,351)
Net assets	**1,321,201**	845,502
Group's share of net assets of associates	**316,842**	264,152
Goodwill on acquisition of associates	**64,314**	71,111
Deemed capital contribution – financial guarantee	**4,955**	4,910
	386,111	340,173
Revenue	**1,075,002**	815,299
(Loss) profit for the year	**(24,512)**	4,393
Group's share of (loss) profit of associates for the year	**(6,501)**	4,685

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2007 RMB'000	2006 RMB'000
Cost of unlisted investments	**349,066**	226,447
Shares of post-acquisition profits, net of dividends received	**134,606**	69,083
	483,672	295,530

Details of the Group's jointly controlled entities as at 31 December 2007 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
鹽城新奧壓縮天燃氣有限公司 ("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
烟台新奧燃氣發展有限公司 ("Yantai Xinao Gas Development Company Limited")	Incorporated	The PRC	**50%**	Investment in gas pipeline infrastructure and sales of piped gas
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 a)	Sales of piped gas
寧波新奧燃氣有限公司 ("Ningbo Xinao Gas Company Limited")	Incorporated	The PRC	**49%**	Sales of piped gas

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group	Principal activities
內蒙古呼鐵新能物流股份有限公司 ("Neimenggu Hutiexinneng Logistics Holdings Limited")	Incorporated	The PRC	**50%**	Provision of logistic services by railway
長沙新奧燃氣發展有限公司 ("Changsha Xinao Gas Development Limited")	Incorporated	The PRC	**55%** (note b)	Sales of piped gas
德化廣安天然氣有限公司 ("Dehua Guangan Natural Gas Limited")	Incorporated	The PRC	**51%** (note c)	Sales of piped gas
合肥新奧中汽能源發展有限公司 ("Hefei Xinao Zhongqi Energy Development Company Limited")	Incorporated	The PRC	**51%** (note b)	Production, processing and operation of clean energy fuels like vehicle fuels, natural gas, LPG, directly lather and methanol. Fitting of vehicle fuel appliances, construction and operation of CNG supply facilities, operation of vehicle repair.

Notes:

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

(b) The Group holds 55% and 51% of the registered capital of Changsha Xinao Gas Development Limited and Hefei Xinao Zhongqi Energy Development Company Limited respectively, however, it does not have controls of the voting power in general meeting and it is therefore classified as a jointly controlled entity of the Group.

(c) The Group holds indirect interest of 51% through a 60% owned subsidiary in the registered capital of 德化廣安天然氣有限公司. The Group does not have controls of the voting power in general meeting and it is therefore classified on a jointly controlled entity of the Group.

Included in the cost of investments in jointly controlled entities is deemed capital contribution of RMB1,000,000 (2006: RMB840,000) in relation to financial guarantee contract issued by the Group and goodwill of RMB69,521,000 (2006: RMB7,644,000). The movement of goodwill is set out below:

	2007 RMB'000	2006 RMB'000
At beginning of the year	**7,644**	7,644
Arising on acquisition of jointly controlled entities	**61,877**	–
At end of the year	**69,521**	7,644

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

At the balance sheet date, the carrying amount of goodwill represents goodwill arising from the acquisition of:

Name of jointly controlled entities	2007 RMB'000	2006 RMB'000
烟台新奧燃氣投資發展有限公司	**7,644**	7,644
寧波新奧燃氣有限公司	**49,216**	–
德化廣安天然氣有限公司	**12,661**	–
	69,521	7,644

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

	2007 RMB'000	2006 RMB'000
Current assets	**377,262**	230,294
Non-current assets	**754,503**	567,910
Current liabilities	**376,117**	214,246
Non-current liabilities	**349,430**	298,856
Income	**802,531**	367,547
Expenses	**689,624**	299,868

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2007 RMB'000	2006 RMB'000
Unlisted equity securities, at cost less impairment	**13,733**	13,840
Equity security listed in Hong Kong, at quoted bid price	**–**	4,580
	13,733	18,420

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. AMOUNTS DUE FROM/TO ASSOCIATES

Included in the amount due from/to associates are trade receivables amounting to RMB23,709,000 (2006: RMB27,988,000) and trade payables amounting to RMB19,362,000 (2006: RMB6,226,000) and the aged analysis is as follow:

	2007 RMB'000	2006 RMB'000
Trade receivables due from associates		
0 – 3 months	**11,802**	11,421
4 – 6 months	**8,198**	6,215
7 – 9 months	**2,816**	1,045
10 – 12 months	**859**	6,304
More than 1 year	**34**	3,003
	23,709	27,988
Trade payables due to associates		
0 – 3 months	**11,830**	803
4 – 6 months	**5,122**	1,461
7 – 9 months	**95**	314
10 – 12 months	**1,512**	2,648
More than 1 year	**803**	1,000
	19,362	6,226

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

Except for the unsecured amounts due from an associate of RMB138,000,000 (2006: RMB83,000,000) which bear interest at fixed rates range from of 6.12% to 7.47% per annum and are recoverable in 2009 to 2010, the remaining balances are unsecured, interest-free and repayable on demand. The Group expects the amounts due from associates will be recoverable within one year from the balance sheet date.

24. AMOUNTS DUE FROM/TO JOINTLY CONTROLLED ENTITIES

Included in the amount due from/to jointly controlled entities are trade receivables amounting to RMB44,122,000 (2006: RMB31,814,000) and trade payables amounting to RMB14,191,000 (2006: RMB13,545,000) and the aged analysis is as follow:

	2007 RMB'000	2006 RMB'000
Trade receivables due from jointly controlled entities		
0 – 3 months	**31,812**	11,088
4 – 6 months	**4,829**	12,550
7 – 9 months	**131**	2,945
10 – 12 months	**179**	3,564
More than 1 year	**7,171**	1,667
	44,122	31,814

24. AMOUNTS DUE FROM/TO JOINTLY CONTROLLED ENTITIES *(continued)*

	2007 RMB'000	2006 RMB'000
Trade payables due to jointly controlled entities		
0 – 3 months	**6,234**	9,308
4 – 6 months	**24**	3,474
7 – 9 months	**531**	763
10 – 12 months	**–**	–
More than 1 year	**7,402**	–
	14,191	13,545

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

Except for the unsecured amounts due from a jointly controlled entity of RMB89,000,000 (2006: RMB69,000,000) which bear interest at fixed rates range from 6.12% to 6.57% per annum and are repayable in 2009 to 2010, the remaining balances are unsecured, interest-free and repayable on demand. The Group expects the amounts due from jointly controlled entities will be recoverable within one year from the balance sheet date.

25. INVENTORIES

	2007 RMB'000	2006 RMB'000
Construction materials	**115,588**	94,778
Gas appliances	**27,989**	32,748
Piped gas	**57,408**	18,090
Bottled liquefied petroleum gas	**20,668**	11,192
Spare parts and consumable	**13,703**	14,410
	235,356	171,218

The cost of inventories recognised as an expense during the year was RMB2,344,794,000 (2006: RMB1,532,061,000).

26. TRADE AND OTHER RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables	**645,891**	423,490
Less: Impairment	**(96,953)**	(39,134)
	548,938	384,356
Other receivables	**213,205**	111,900
Less: Impairment	**(33,363)**	(15,900)
	179,842	96,000
Advance to supplier, deposit and prepayment	**341,177**	317,539
Trade and other receivables	**1,069,957**	797,895

Included under trade receivables are retentions held by customers for contract work with an average retention period of one year amounted to RMB1,567,000 (2006: RMB1,204,000).

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

	2007 RMB'000	2006 RMB'000
0-3 months	**387,030**	277,354
4-6 months	**90,691**	49,036
7-9 months	**40,659**	46,630
10-12 months	**23,372**	11,336
More than 1 year	**7,186**	–
	548,938	384,356

26. TRADE AND OTHER RECEIVABLES *(continued)*

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB435,455,000 (2006: RMB328,913,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 76 days (2006: 72 days).

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

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

	2007 RMB'000	2006 RMB'000
Within one year	**434,658**	328,913
Over one year	**797**	–
Total	**435,455**	328,913

Movement in the impairment on trade receivables

	2007 RMB'000	2006 RMB'000
Balance at beginning of the year	**39,134**	15,314
Impairment losses recognised on receivables	**71,295**	32,719
Amounts recovered during the year	**(13,476)**	(8,899)
Balance at end of the year	**96,953**	39,134

Movement in the impairment on other receivables

	2007 RMB'000	2006 RMB'000
Balance at beginning of the year	**15,900**	–
Impairment losses recognised on receivables	**20,311**	15,900
Amount written off as uncollectible	**(2,848)**	–
Balance at end of the year	**33,363**	15,900

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

27. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2007 RMB'000	2006 RMB'000
Contract costs incurred plus recognised profits	**554,976**	555,745
Less: Progress billings	**(524,710)**	(524,404)
	30,266	31,341
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**335,910**	311,243
Amounts due to customers for contract work	**(305,644)**	(279,902)
	30,266	31,341

28. AMOUNTS DUE FROM RELATED COMPANIES

	2007			2006		
	Balance at 31.12.2007 RMB'000	**Balance at 1.1.2007 RMB'000**	**Maximum amount outstanding during the year RMB'000**	Balance at 31.12.2006 RMB'000	Balance at 1.1.2006 RMB'000	Maximum amount outstanding during the year RMB'000
Amounts due from minority shareholders of subsidiaries with significant influence	**26,197**	**74,434**	**82,117**	74,434	12,245	82,870
Amounts due from companies controlled by a major shareholder and director (note a)	**17,076**	**27,350**	**27,350**	27,350	39,873	87,837
	43,273	**101,784**		101,784	52,118	

Note:

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

(b) Except for an amount of RMB5,000,000 which is interest bearing at 5.85% and recoverable within one year from the balance sheet date and an amount of RMB3,017,000 which are interest bearing at People's Bank of China ("PBOC") base rate and repayable within the next twelve months, the remaining balances are unsecured, interest-free and recoverable on demand. The Group expects the amounts will be recoverable within one year from the balance sheet date.

Included in the amount due from related companies are trade receivables amounting to RMB17,761,000 (2006: RMB41,665,000) and the aged analysis is as follows:

	2007 RMB'000	2006 RMB'000
0 – 3 months	**9,588**	12,870
4 – 6 months	**166**	12,145
7 – 9 months	**720**	4,055
10 – 12 months	**886**	435
More than 1 year	**6,401**	12,160
	17,761	41,665

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

29. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes bank balances with original maturities less than three months carrying interest at market rates which range from 0.72% to 5% per annum. The bank balances denominated in RMB are deposited with banks in the PRC and the conversion of such balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

At the balance sheet date, the cash and cash equivalents denominated in foreign currencies other than the functional currency of respective group entities is RMB123,386,000 (2006: RMB19,340,000), of which, RMB2,956,000 (2006: RMB2,746,000) and RMB120,356,000 (2006: RMB16,510,000) are denominated in USD and HKD respectively.

30. TRADE AND OTHER PAYABLES

	2007 **RMB'000**	2006 RMB'000
Trade payables aged:		
0 – 3 months	**538,657**	487,612
4 – 6 months	**145,312**	63,140
7 – 9 months	**68,031**	45,334
10 – 12 months	**34,564**	36,651
More than 1 year	**105,870**	70,735
Trade payables	**892,434**	703,472
Advances received from customers	**882,895**	549,463
Accrued charges and other payables	**429,731**	373,024
	2,205,060	1,625,959

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

31. DERIVATIVE FINANCIAL LIABILITIES

	2007 **RMB'000**	2006 RMB'000
Interest rate swaps not qualify for hedge accounting	**–**	46,012

Major terms of the interest rate swaps at 31 December 2006 were as follows:

Notional amount	**Maturity date**	**Swaps**
USD100,000,000	5 August 2012	From 7.375%* to London Interbank Offered Rate ("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 31 December 2006. Their fair values are determined based on the valuations provided by the relevant financial institutions at the balance sheet date.

The swaps were terminated with the consent of both parties during the year ended 31 December 2007.

32. AMOUNTS DUE TO RELATED COMPANIES

	2007 RMB'000	2006 RMB'000
Amounts due to minority shareholders of subsidiaries with significant influence	**5,400**	3,183
Amounts due to companies controlled by a major shareholder and director (note a)	**24,379**	14,849
	29,779	18,032

Notes:

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

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

Included in the amount due to related companies are trade payables amounting to RMB29,462,000 (2006: RMB15,089,000) and the aged analysis is as follows:

	2007 RMB'000	2006 RMB'000
0 – 3 months	**24,742**	11,707
4 – 6 months	**519**	694
7 – 9 months	**37**	1,196
10 – 12 months	**259**	395
More than 1 year	**3,905**	1,097
	29,462	15,089

33. BANK AND OTHER LOANS

	2007 RMB'000	2006 RMB'000
Bank loans		
Secured	**1,761,370**	1,504,258
Unsecured	**1,298,569**	810,149
	3,059,939	2,314,407
Other loans		
Secured	**54,496**	–
Unsecured	**107,857**	55,471
	162,353	55,471
	3,222,292	2,369,878

33. BANK AND OTHER LOANS *(continued)*

	2007 RMB'000	2006 RMB'000
The bank and other loans are repayable:		
Within one year	**834,779**	619,140
Between one to two years	**144,378**	159,337
Between two to five years	**435,923**	251,023
More than five years	**1,807,212**	1,340,378
	3,222,292	2,369,878
Less: Amount due within one year shown under current liabilities	**(834,779)**	(619,140)
Amount due after one year	**2,387,513**	1,750,738

All the bank and other loans are denominated in the functional currency of respective group entities except for RMB109,569,000 (2006: RMB175,660,000) and RMB18,370,000 (2006: RMB9,016,000) which are denominated in USD and HKD respectively.

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

	Maturity date	Effective interest rate per annum	Carrying amount 2007 RMB'000	2006 RMB'000
Fixed-rate borrowings:				
6.12% secured RMB bank loan	5/9/2007	6.12%	**–**	50,000
5.18% – 6.39% unsecured RMB bank loan	14/1/2008 – 18/7/2008	5.7%	**382,000**	567,490
2.55% – 5.38% unsecured RMB other loans	9/12/2008 – 12/6/2017	2.55% – 5.38%	**107,857**	55,471
Total fixed-rate borrowings			**489,857**	672,961
Floating-rate borrowings:				
Unsecured RMB bank loan at PBOC base rate	23/1/2008 – 15/12/2020	6.52%	**807,000**	66,999
Secured RMB bank loan at PBOC base rate	1/4/2008 – 20/12/2020	6.94%	**1,743,000**	1,445,242
Unsecured USD bank loan at London Inter Bank Offer Rate plus 1.5%	15/6/2009 – 15/12/2009	7.06%	**109,569**	175,660
Secured HKD bank loan of HKD19,618,000 at Prime rate minus 2.8% – 2.95%	25/7/2013 – 26/9/2022	4.95%	**18,370**	9,016
Secured RMB other loan at prevailing market rate	15/12/2014 – 12/6/2017	2.7%	**54,496**	–
Total floating rate borrowings			**2,732,435**	1,696,917
Total borrowings			**3,222,292**	2,369,878

34. SHORT-TERM DEBENTURE

Pursuant to a circular [2007] No. 397 issued by PBOC dated 31 October 2007, PBOC approved a wholly-owned subsidiary of the Company, 新奧(中國)燃氣投資有限公司 ("新奧(中國)燃氣投資") to issue short-term debenture with a maximum limit of RMB1,000,000,000 up to 31 October 2008. 新奧(中國)燃氣投資 issued debenture to third party debenture holders with face value of RMB400,000,000 on 20 November 2007. The debentures are unsecured, interests bearing at 5.75% per annum and repayable one year after the issue date.

35. FINANCIAL GUARANTEE LIABILITY

	2007 RMB'000	2006 RMB'000
Financial guarantee contracts		
– current	**1,353**	1,502
– non-current	**–**	1,228
	1,353	2,730

As at 31 December 2007, the Group had outstanding guarantees issued to banks to secure loan facilities granted to associates and a jointly controlled entity to the extent of RMB43,000,000 (2006: RMB40,000,000) for one to two-year loans and RMB40,000,000 (2006: RMB57,000,000) for a four-year loan, respectively, of which the amounts have been utilised at the balance sheet dates.

During the year ended 31 December 2006, 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.

36. SHARE CAPITAL

	2007 Number of shares	2006 Number of shares	**2007 HK$'000**	2006 HK$'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	**973,958,599**	904,233,560	**97,396**	90,423
Issue of shares on:				
Exercise of share options	**19,010,000**	–	**1,901**	–
Conversion of convertible bonds	**16,790,798**	69,725,039	**1,679**	6,973
At end of the year	**1,009,759,397**	973,958,599	**100,976**	97,396

36. SHARE CAPITAL *(continued)*

	2007 RMB'000	2006 RMB'000
Presented in financial statements as:		
At beginning of the year	**102,825**	95,819
Issue of shares on:		
Exercise of share options	**1,855**	–
Conversion of convertible bonds (Note 37)	**1,638**	7,006
At end of the year	**106,318**	102,825

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.

On 17 May 2007 and 23 October 2007, 1,700,000 and 17,310,000 shares were issued at an exercise price of HK$2.265 and HK$6.65 per ordinary share in relation to the exercise of share option respectively.

37. 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.

During the year ended 31 December 2006, 69,725,039 ordinary shares of HK$0.10 each were issued in relation to the conversion of CB to shares by various CB holders. These were issued at an conversion price of HK$5.4375 per ordinary share. These shares rank pari passu with the existing shares in all respects. No separate fair value of convertible bonds at each conversion date during the year ended 31 December 2006 were prepared and for the purpose of calculating the fair value changes before each conversion, the fair values as at 30 June 2007 is used.

37. CONVERTIBLE BONDS *(continued)*

All outstanding convertible bonds were converted during the year ended 31 December 2007. The CB with fair value of RMB27,408,000 as at 30 April 2007, which was based on the valuation carried out by Knight Frank Petty, using the binomial model were converted into 3,678,160 ordinary shares of HK$0.10 each on 30 April 2007. The remaining CB with fair value of RMB99,830,000 as at 30 April 2007 were converted into 13,112,638 ordinary shares of HK$0.10 each in May 2007. No separate fair value of convertible bonds at each conversion date in May 2007 were prepared as the Directors are of the opinion that those fair values were not significantly different from that as at 30 April 2007. The shares were issued at an conversion price of HK$5.4375 per ordinary share. These shares rank pari passu with the existing shares in all respects.

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

	2007 **RMB'000**	2006 RMB'000
At beginning of the year	**127,597**	556,400
Change in fair value	**3,370**	4,392
Exchange difference	**(3,729)**	–
Conversion to shares	**(127,238)**	(433,195)
At end of the year	**–**	127,597

38. GUARANTEED NOTES

	2007 **RMB'000**	2006 RMB'000
Guaranteed notes	**1,433,657**	1,525,461

On 5 August 2005, the Company issued guaranteed notes in the aggregate principal amount of US$200,000,000 (equivalent to approximately RMB1,614,040,000) which are unsecured, unconditionally and irrecoverably guaranteed by certain subsidiaries of the Company.

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

According to the terms and conditions of the guaranteed notes, at any time or from time to time prior to the maturity date, the Company may at its option to redeem the notes at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest to such redemption date. The early redemption right is considered closely related to the guaranteed note and is therefore not separately accounted for. The effective interest rate is approximately 7.92% per annum after adjusted for transaction costs.

39. 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	Capitalisation of interest in property, plant and equipment RMB'000	Others RMB'000	Total RMB'000
At 1 January 2006	8,398	13,180	–	–	21,578
Acquisition of businesses	–	40,929	–	–	40,929
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
Acquisition of subsidiaries and businesses	4,999	48,754	–	(1,579)	52,174
Effect of change in tax rate					
– credit to income statement	–	(5,806)	–	–	(5,806)
– credit to equity	(2,928)	–	–	–	(2,928)
(Credit) charge to income statement	(689)	(1,623)	8,014	–	5,702
Credit to equity	(428)	–	–	–	(428)
At 31 December 2007	**11,956**	**92,438**	**8,014**	**(1,579)**	**110,829**

For the purpose of balance sheet presentation, the above deferred tax assets and liabilities have been offset.

At the balance sheet date, the Group has unused tax losses of RMB466,011,000 (2006: RMB317,219,000) 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:

	2007 RMB'000	2006 RMB'000
2007	**–**	1,211
2008	**10,681**	24,450
2009	**16,524**	45,167
2010	**37,980**	75,722
2011	**140,157**	170,669
2012	**260,669**	–
	466,011	317,219

At the balance sheet date, the Group has deductible temporary differences in respect of allowance for doubtful debts of RMB130,316,000 (2006: 55,034,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

40. SHARE OPTION SCHEME

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

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

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

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

					Number of options		
	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Outstanding at 31.12.2007
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	–	(11,850,000)	7,900,000
	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	–	(5,460,000)	3,640,000
	15.3.2006	16.3.2008 – 15.3.2016	HK$6.65	9,100,000	–	–	9,100,000
				59,400,000	–	(19,010,000)	40,390,000
Exercisable at the end of the year							11,540,000

					Number of options		
	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2006	Granted during the year	Exercised during the year	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

40. SHARE OPTION SCHEME *(continued)*

At 31 December 2007, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 40,390,000 (2006: 59,400,000) representing 4.0% (2006: 6.10%) of the shares of the Company in issue as at that date.

On 15 March 2006, 57,700,000 share options were granted. The closing price of the Company's shares immediately before the date of grant was HK$6.2. The fair value 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 value 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% which was determined by using the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations. The expected dividend yield is 1.5% and the risk free rate is 4.8%.

The vesting and exercisable period regarding these option 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
57,700,000		

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 RMB21,454,000 (2006: 57,370,000) for the year ended 31 December 2007 in relation to share options granted by the Company.

41. ACQUISITION OF BUSINESSES

(a) Acquisition during the year ended 31 December 2007

(i) On 18 January 2007, the Group acquired 100% of the registered capital of 蚌埠市高樂登液化氣有限責任公司, which is engaged in sales of liquefied gas and gas appliance business, for cash consideration of RMB4,200,000. This transaction has been accounted for using the purchase method of accounting. The fair value of assets and liabilities acquired in the transaction is set out as follows:

	Carrying amount before combination RMB'000	Fair value adjustment RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	783	197	980
Prepaid lease payments	–	1,616	1,616
Inventories	1,024	–	1,024
Trade and other receivables	506	–	506
Cash and cash equivalents	303	–	303
Trade and other payables	(1,007)	–	(1,007)
Deferred taxation	–	(453)	(453)
	1,609	1,360	2,969
Goodwill on acquisition			1,231
Total consideration			4,200
Net cash outflow arising on acquisition:			
Cash consideration paid			(4,200)
Cash and cash equivalents acquired			303
			(3,897)

蚌埠市高樂登液化氣有限責任公司 contributed a loss of RMB495,000 and revenue of RMB17,717,000 to the Group for the period between the date of acquisition and the balance sheet date.

(ii) On 16 April 2007, the Group acquired 100% of the registered capital of 蚌埠市鑫達液化氣有限公責任公司, which is engaged in sales of liquefied gas and gas appliance business, for cash consideration of RMB8,050,000. This transaction has been accounted for using the purchase method of accounting. The fair value of assets and liabilities acquired in the transaction is set out as follows:

	Carrying amount before combination RMB'000	Fair value adjustment RMB'000	Fair value RMB'000
Net assets acquired:			
Plant and equipment	517	5,768	6,285
Trade and other payables	(209)	–	(209)
Deferred taxation	–	(1,442)	(1,442)
	308	4,326	4,634
Goodwill on acquisition			3,416
Total consideration			8,050
Cash outflow arising on acquisition:			
Cash consideration paid			(8,050)

No contribution to the Group's revenue were made by the subsidiary acquired during the period and it contributed a loss of RMB262,000 to the Group's result for the year.

41. ACQUISITION OF BUSINESSES *(continued)*

(a) Acquisition during the year ended 31 December 2007 *(continued)*

(iii) On 26 June 2007, the Group acquired 100% of the registered capital of 杭州蕭山利達管道燃氣有限公司, which is engaged in sales of piped gas and gas appliance business, for cash consideration of RMB100,500,000. This transaction has been accounted for using the purchase method of accounting. The fair value of assets and liabilities acquired in the transaction is set out as follows:

	Carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net asset acquired:			
Plant and equipment	5,920	9,208	15,128
Intangible asset – rights of operation	–	90,825	90,825
Intangible asset – customer base	–	509	509
Inventories	1,779	–	1,779
Trade and other receivables	13,226	–	13,226
Cash and cash equivalents	21,936	–	21,936
Trade and other payables	(18,018)	–	(18,018)
Deferred taxation	–	(24,885)	(24,885)
	24,843	75,657	100,500
Net cash outflow arising on acquisition:			
Cash consideration paid			(100,500)
Cash and cash equivalents acquired			21,936
			(78,564)

杭州蕭山利達管道燃氣有限公司 contributed a loss of RMB101,000 and revenue of RMB13,266,000 to the Group for the period between the date of acquisition and the balance sheet date.

41. ACQUISITION OF BUSINESSES *(continued)*

(a) Acquisition during the year ended 31 December 2007 *(continued)*

(iv) In June 2007, the Group obtained 13.22% of the registered capital of 洛陽市中天燃氣工程設計有限公司 ("洛陽市中天燃氣"), which is engaged in investment in gas pipeline infrastructure business, through the acquisition of business from 洛陽新奧華油燃氣有限公司 ("洛陽新奧華油") as set out in Note 40 (a)(ix).

In September 2007, the Group acquired the remaining 86.78% of the registered capital of 洛陽市中天燃氣 for cash consideration of RMB1,306,000, 洛陽市中天燃氣 became a wholly-owned subsidiary of the Company upon the completion of the transaction. This transaction has been accounted for using the purchase method of accounting.

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

	RMB'000
Net assets acquired:	
Property, plant and equipment	142
Trade and other receivables	498
Cash and cash equivalents	827
Trade and other payables	(239)
	1,228
Goodwill on acquisition	178
Total consideration	1,406
Satisfied by:	
Cash	1,306
Transfer from available-for-sale investments	100
	1,406
Net cash outflow arising on acquisition:	
Cash consideration paid	(1,306)
Cash and cash equivalents acquired	827
	(479)

洛陽市中天燃氣 contributed RMB143,000 and RMB398,000 to the Group's profit and revenue respectively for the period between the date of acquisition and the balance sheet date.

41. ACQUISITION OF BUSINESSES *(continued)*

(a) Acquisition during the year ended 31 December 2007 *(continued)*

(v) In September 2007, the Group acquired 100% of the registered capital of 洛陽市通奧管道燃氣具有限公司, which is engaged in production and sales of gas appliance business, for cash consideration of RMB1,572,000. This transaction has been accounted for using the purchase method of accounting.

The provisional fair value of assets and liabilities, the amounts of which are approximately to the carrying values immediate before the acquisition, acquired in the transaction are as follows:

	RMB'000
Net assets acquired:	
Plant and equipment	36
Inventories	100
Trade and other receivables	895
Cash and cash equivalents	35
Trade and other payables	(317)
	749
Goodwill on acquisition	823
Total consideration	1,572
Net cash outflow arising on acquisition:	
Cash consideration paid	(1,572)
Cash and cash equivalents acquired	35
	(1,537)

洛陽市通奧管道燃氣具有限公司 contributed a loss of RMB308,000 and revenue of RMB400,000 to the Group for the period between the date of acquisition and the balance sheet date.

41. ACQUISITION OF BUSINESSES *(continued)*

(a) Acquisition during the year ended 31 December 2007 *(continued)*

(vi) In June 2007, the Group obtained 13.22% of the registered capital of 洛陽市明炬燃氣工程有限責任公司 ("洛陽市明炬燃氣"), which is engaged in investment in gas pipeline intrastructure business, through the acquisition of business from 洛陽新奧華油 as set out in Note 40 (a)(ix).

In September 2007, the Group acquired 86.78% of the registered capital of 洛陽市明炬燃氣 for cash consideration of RMB8,710,000. 洛陽市明炬燃氣 became a wholly-owned subsidiary of the Company upon the completion of the transaction. This transaction has been accounted for using the purchase method of accounting.

The provisional fair value of assets and liabilities, the amounts of which are approximately to the carrying values immediate before the acquisition, acquired in the transaction are as follows:

	RMB'000
Net assets acquired:	
Plant and equipment	1,384
Interest in an associate	681
Inventories	605
Trade and other receivables	4,946
Cash and cash equivalents	2,202
Trade and other payables	(3,516)
	6,302
Goodwill on acquisition	3,058
Total consideration	9,360
Satisfied by:	
Cash	8,710
Transfer from available-for-sale investments	650
	9,630
Net cash outflow arising on acquisition:	
Cash consideration paid	(8,710)
Cash and cash equivalents acquired	2,202
	(6,508)

洛陽市明炬燃氣 contributed a loss of RMB1,096,000 and revenue of RMB2,629,000 to the Group for the period between the date of acquisition and the balance sheet date.

41. ACQUISITION OF BUSINESSES *(continued)*

(a) Acquisition during the year ended 31 December 2007 *(continued)*

(vii) In July 2007, the Group has acquired 100% of the registered capital of 洛陽新奧液化氣有限公司, which is engaged in sales of liquefied gas and gas appliance business, for cash consideration of RMB24,459,000. This transaction has been accounted for using the purchase method of accounting.

The provisional fair value of assets and liabilities acquired in the transaction is set out as follows:

	Carrying amount before combination RMB'000	Fair value adjustment RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	10,479	4,821	15,300
Prepaid lease payments	5,099	1,831	6,930
Inventories	44	–	44
Trade and other receivables	1,707	–	1,707
Cash and cash equivalents	934	–	934
Trade and other payables	(5,569)	–	(5,569)
Deferred taxation	–	(1,663)	(1,663)
	12,694	4,989	17,683
Goodwill on acquisition			6,776
Total consideration			24,459
Satisfied by cash:			
Paid			23,131
Payable – included in other payables			1,328
			24,459
Net cash outflow arising on acquisition:			
Cash consideration paid			(23,131)
Cash and cash equivalents acquired			934
			(22,197)

洛陽新奧液化氣有限公司 contributed a loss of RMB1,708,000 and revenue of RMB18,503,000 to the Group's profit and revenue respectively for the period between the date of acquisition and the balance sheet date.

41. ACQUISITION OF BUSINESSES *(continued)*

(a) Acquisition during the year ended 31 December 2007 *(continued)*

(viii) In April 2007, an existing 90% owned subsidiary of the Company, 衢州新奧燃氣有限公司, which is engaged in investment in gas pipeline infrastructure, acquired assets and liabilities in relation to the business of piped gas operation in Quzhou City from a third party at a consideration of RMB11,790,000. The fair value of assets and liabilities acquired is set out as follows:

	Carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair values RMB'000
Plant and equipment	8,790	–	8,790
Intangible asset – customer base	–	135	135
Deferred taxation	–	(34)	(34)
	8,790	101	8,891
Goodwill on acquisition			2,899
Total consideration			11,790
Cash outflow arising from acquisition:			
Cash consideration paid			(11,790)

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 business is not kept separately from the books of 衢州新奧燃氣有限公司.

41. ACQUISITION OF BUSINESSES *(continued)*

(a) Acquisition during the year ended 31 December 2007 *(continued)*

(ix) In June 2007, an existing 70% owned subsidiary of the Company, 洛陽新奧華油, which is engaged in investment in gas pipeline infrastructure and sale of piped gas business, acquired the assets and liabilities in relation to the business of its piped gas operation in Luoyang City from the minority shareholder at a consideration of RMB80,353,000. The fair value of assets and liabilities acquired is set out as follows:

	Carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Property, plant and equipment	167,760	–	167,760
Prepaid lease payments	23,568	–	23,568
Available-for-sale investments	750	–	750
Intangible asset – rights of operation	–	52,481	52,481
Intangible asset – customer base	–	11,453	11,453
Inventories	10,297	–	10,297
Trade and other receivables	8,459	–	8,459
Cash and cash equivalents	307	–	307
Trade and other payables	(72,623)	–	(72,623)
Other loan	(107,857)	–	(107,857)
Deferred taxation	–	(14,242)	(14,242)
	30,661	49,692	80,353
Satisfied by cash:			
Paid			35,000
Payable – included in other payables			45,353
			80,353
Net cash outflow arising on acquisition:			
Cash consideration paid			(35,000)
Cash and cash equivalents acquired			307
			(34,693)

The business contributed RMB27,676,000 and RMB185,992,000 to the Group's profit and revenue respectively for the period between the date of acquisition and the balance sheet date.

41. ACQUISITION OF BUSINESSES *(continued)*

(a) Acquisition during the year ended 31 December 2007 *(continued)*

(x) Pursuant to an agreement entered into between a subsidiary of the Company, Xinao Jiangsu Investment Limited ("Xinao Jiangsu") and 藍星新材料鹽城有限公司 ("藍星") (formerly known as 鹽城市天然氣開發利用有限公司) in 2003, Xinao Jiansu agreed to acquire all piped gas business of 鹽城市常建燃氣有限公司 ("鹽城常建"), an associate of the Group engaged in sale of piped gas business. Xinao Jiangsu and 藍星, hold 45% and 55% of registered capital of 鹽城常建 respectively before the completion of the transaction. The transaction was completed during the year and 鹽城常建 was deregistered upon the completion of the transaction.

The consideration for acquisition of the business is settled by mean of transfer 30% of registered capital of another subsidiary of the Company, 鹽城新奧燃氣有限公司 ("鹽城新奧") to 藍星 and 藍星 was required to pay a cash consideration of RMB7,365,000 to the Group. This transaction has been accounted for using the purchase method of accounting.

The provisional fair value of assets and liabilities, acquired in the transaction is set out as follows:

	Carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Plant and equipment	14,439	–	14,439
Intangible assets – rights of operation	–	39,614	39,614
Inventories	607	–	607
Trade and other receivables	129	–	129
Trade and other payables	(10,793)	–	(10,793)
Deferred taxation	–	(9,904)	(9,904)
	4,382	29,710	34,092
Satisfied by:			
Carrying value of 30% of net assets of 鹽城新奧 transferred to 藍星			32,310
Interest in associate			9,147
Consideration received			(7,365)
			34,092
Net cash inflow arising on acquisition:			
Consideration received			7,365

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 business is not kept separately from the books of 鹽城新奧.

41. ACQUISITION OF BUSINESSES *(continued)*

(a) Acquisition during the year ended 31 December 2007 *(continued)*

(xi) In August 2007, an existing subsidiary of the Company, 新安新奧燃氣有限公司, acquired the piped gas business, from its minority shareholder for cash consideration of RMB6,000,000. This transaction has been accounted for using the purchase method of accounting.

The provisional fair value of assets and liabilities acquired in the transaction is set out as follows:

	Carrying amount before combination	Fair value adjustment	Fair value
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant and equipment	3,116	–	3,116
Prepaid lease payments	2,884	(1,794)	1,090
Deferred taxation	–	449	449
	6,000	(1,345)	4,655
Goodwill on acquisition			1,345
Total consideration			6,000
Satisfied by cash:			
Paid			5,800
Payable – included in other payables			200
			6,000
Net cash outflow arising on acquisition:			
Cash consideration paid			(5,800)

The business contributed a loss of RMB341,300 and no revenue to the Group for the period between the date of acquisition and the balance sheet date.

If the above acquisitions had been completed on 1 January 2007, total group revenue for the year ended 31 December 2007 would have been RMB6,202,933,000 and profit for the year ended 31 December 2007 would have been RMB744,232,000. 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 2007, nor is it intended to be a projection of future results.

41. ACQUISITION OF BUSINESSES *(continued)*

(b) Acquisition during the year ended 31 December 2006

(i) 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 accounted for using the purchase method of accounting.

The 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
Cash and cash equivalents	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)
Cash and cash equivalents acquired			3,720
			(3,763)

Note: The associates are the Group's non-wholly 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 ended 31 December 2006 between the date of acquisition and the balance sheet date.

41. ACQUISITION OF BUSINESSES *(continued)*

(b) Acquisition during the year ended 31 December 2006 *(continued)*

(ii) During the year ended 31 December 2006, the minority shareholder of an existing subsidiary in the PRC, namely 湛江新奧燃氣有限公司, 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:

	Carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair values RMB'000
Property, plant and equipment	92,089	–	92,089
Available-for-sale financial assets	6,535	–	6,535
Inventories	901	–	901
Cash and cash equivalents	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:			
Cash and cash equivalents acquired			1,975

The goodwill arising on the acquisition of 湛江新奧燃氣有限公司 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 湛江新奧燃氣有限公司 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) Acquisition during the year ended 31 December 2006 *(continued)*

(iii) During the year ended 31 December 2006, 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 financial assets	259	–	259
Inventories	52,714	–	52,714
Trade and other receivables	42,139	–	42,139
Cash and cash equivalents	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:			
Cash and cash equivalents 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)*

(b) Acquisition during the year ended 31 December 2006 *(continued)*

(iv) 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 fair values of assets and liabilities acquired are as follows:

	Carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value 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.

(v) 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 fair values of assets and liabilities acquired are as follows:

	Carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value 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)*

(b) Acquisition during the year ended 31 December 2006 *(continued)*

(vi) In November 2006, an existing subsidiary, 桂林新奧燃氣有限公司, acquired assets and liabilities in relation to the business of piped gas operation in Guilin City from a third party. The fair values of assets and liabilities acquired are as follows:

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

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 business is not kept separately from the books of 桂林新奧燃氣有限公司.

If the above acquisitions 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.

42. OTHER MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2006, the Group established a subsidiary, namely 洛陽新奧華油燃氣有限公司, in 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. COMMITMENTS

	2007 RMB'000	2006 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for	**121,024**	32,716
Group's share of capital commitments contracted but not provide for in an associate	**–**	919

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:

	2007 RMB'000	2006 RMB'000
Within one year	**11,887**	4,579
In the second to fifth year inclusive	**16,067**	7,247
Over five years	**5,126**	3,432
	33,080	15,258

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

The Group as lessor

The Group's investment properties are held for rental purposes. The properties are expected to generate rental yields of 3.4% (2006: 4.7%) on an ongoing basis. All of the properties held have committed tenants for an average term of one year.

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

	2007 RMB'000	2006 RMB'000
Within one year	**1,352**	2,894
In the second year	**1,357**	1,817
	2,709	4,711

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:

	2007 RMB'000	2006 RMB'000
Carrying amount of:		
Property, plant and equipment	**78,153**	71,633
Investment properties	**58,387**	47,980
	136,540	119,613

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.

46. RELATED PARTY TRANSACTIONS

Apart form the related party balances as stated in Note 23, 24, 28 and 32, the Group had the following transactions with certain related parties.

Nature of transaction	2007 RMB'000	2006 RMB'000
Provision of gas connection service to		
– companies controlled by the controlling shareholders, Mr. Wang (the "related companies")	5,047	2,475
– a minority shareholder of subsidiary with significant influence	120	–
Sales of gas to		
– related companies	3,674	1,885
– a minority shareholder of subsidiary with significant influence	–	8
– an associate	25,266	5,239
– a jointly controlled entity	8,305	18,718
Purchase of gas from		
– jointly controlled entities	91,517	52,243
– an associate	38,420	5,919
Sales of materials to		
– related companies	177	–
– jointly controlled entities	33,259	9,250
– associates	1,637	190
Lease of premises to related companies	1,983	2,309
Deposit paid to a minority shareholder of subsidiary with significant influence for equity interest in joint venture	–	18,225
Lease of premises from minority shareholders of subsidiaries with significant influence	2,297	182
Purchase of business from minority shareholders of subsidiaries with significant influence (Note 41(a))	86,353	–
Provision for management services by related companies	2,473	1,795
Provision for gas transportation services to		
– jointly controlled entities	15,095	25,742
– an associate	9,522	6,594
Purchase of compressed natural gas truck trailers, pressure regulating and gas equipment by related companies	104,846	129,948
Deposit for purchase of compressed natural gas track trailers, pressure regulating and gas equipment by related companies	310	7,530
Purchase of land and buildings from related companies	326	–
Provision of decoration services from a related company	4,910	3,240
Purchase of materials from a minority shareholder of subsidiary with significant influence	–	3,497
Purchase of materials used in production – dimethyl ether from related companies	26,719	–
Donation to related party (i)	540	4,200
Loan interest from		
– jointly controlled entities	5,213	1,912
– an associate	6,162	–
Provision of construction services to a jointly controlled entity	–	2,721
Provision of transportation services by a related company	1,335	843
Provision of hotel services by a related company	478	–
Provision of vehicle gasoline refuelling services by a related company	686	–
Provision of expert by a related company	1,609	–
Provision of repair and maintenance services by a related company	221	–

46. RELATED PARTY TRANSACTIONS *(continued)*

Nature of transaction	2007 RMB'000	2006 RMB'000
Provision of building management services to a related company	363	–
Payments on behalf of minority shareholders of subsidiaries with significant influence (ii)	–	730
Expenses paid by a jointly controlled entity on behalf of the Group	885	49
Provision of construction service from a minority shareholder of a subsidiary with significant influence	877	978
Disposal of assets to an associate	–	14,865
Disposal of assets to a jointly controlled entity	39,212	–

Notes:

(i) Donation is made to a non-profit making organization, 新奧慈善基金會, of which Mr. Wang is the legal representative.

(ii) Payments made on behalf of minority shareholders of subsidiaries with significant influence are unsecured, interest free and repayable on demand.

Compensation of key management personnel

In addition, 39,500,000 share options were granted to the Directors during the year ended 31 December 2006 and no share option was granted to the Directors during the year ended 31 December 2007. Details of the share options are disclosed in Note 40. Share-based payment expense in relation to the options granted to the directors of RMB14,232,000 (2006: RMB39,274,000) 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:

2007

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Unallocated segment RMB'000	Consolidation RMB'000
Revenue	1,925,079	2,641,417	1,092,226	97,548	–	5,756,270
Segment result before depreciation, impairment and loss on disposal of property, plant and equipment	1,246,033	686,213	15,126	25,365	–	1,972,737
Depreciation	(14,594)	(197,308)	(7,038)	(3,443)	–	(222,383)
Loss on disposal of property, plant and equipment	(3,126)	(23,669)	–	–	(6,722)	(33,517)
Impairment loss on property, plant and equipment	–	(11,535)	–	–	–	(11,535)
Impairment loss on goodwill	(50,606)	–	–	–	–	(50,606)
Segment result	1,177,707	453,701	8,088	21,922	(6,722)	1,654,696
Unallocated other income						276,706
Unallocated corporate expenses						(942,226)
						989,176
Share of results of associates	1,456	446	–	–	(8,403)	(6,501)
Share of results of jointly controlled entities	92,932	20,083	–	–	–	113,015
Finance costs						(281,173)
Profit before taxation						814,517
Taxation						(108,373)
Profit for the year						706,144

47. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

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	Consolidation RMB'000
Revenue	1,354,892	1,623,510	282,606	135,528	–	3,396,536
Segment result before depreciation and loss on disposal of property, plant and equipment	1,014,011	290,212	15,086	26,446	–	1,345,755
Depreciation	(9,950)	(130,703)	(4,317)	(1,379)	–	(146,349)
Loss on disposal of property, plant and equipment	(1,040)	(5,308)	–	–	(925)	(7,273)
Segment result	1,003,021	154,201	10,769	25,067	(925)	1,192,133
Unallocated other income						167,990
Unallocated corporate expenses						(693,878)
						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

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

2007

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Unallocated segment RMB'000	Consolidation RMB'000
Assets:						
Segment assets	**1,525,168**	**4,106,032**	**161,845**	**168,927**	**1,651,364**	**7,613,336**
Interests in associates	**22,354**	**234,321**	**–**	**–**	**129,436**	**386,111**
Interests in jointly controlled entities	**301,517**	**182,155**	**–**	**–**	**–**	**483,672**
Unallocated corporate assets						**4,067,019**
Consolidated total assets						**12,550,138**
Liabilities:						
Segment liabilities	**1,373,668**	**499,623**	**33,173**	**47,347**	**18,100**	**1,971,911**
Unallocated corporate liabilities						**5,917,569**
Consolidated total liabilities						**7,889,480**

47. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

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	Consolidation RMB'000
Assets:						
Segment assets	1,074,882	3,440,174	97,457	105,017	1,338,579	6,056,109
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						3,343,194
Consolidated total assets						10,035,006
Liabilities:						
Segment liabilities	903,813	349,833	8,229	18,287	54,472	1,334,634
Unallocated corporate liabilities						4,831,944
Consolidated total liabilities						6,166,578

OTHER INFORMATION

2007

	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	Total RMB'000
Capital additions	**182,166**	**868,692**	**55,979**	**24,310**	**707,582**	**1,838,729**

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	Total RMB'000
Capital additions	101,989	528,243	71,311	2,420	877,059	1,581,022

(b) Geographical segment

More than 90 percent of the Group's assets are located in the PRC as at the balance sheet date.

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

48. RETIREMENT BENEFITS SCHEME

	2007 RMB'000	2006 RMB'000
Retirement benefit contribution made during the year	**32,884**	25,691

According to the relevant laws and regulations in the PRC, the PRC subsidiaries of the Company are required to contribute a certain percentage of the payroll of their employees to the retirement benefits scheme to fund the retirement benefits of their employees. A subsidiary of the Company is required to join a Mandatory Provident Fund Scheme for all its employees in Hong Kong. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the respective schemes. During the two years ended 31 December 2007, there were no forfeited contributions, which arose upon employees leaving the retirement benefits schemes, available to reduce the contribution payable in the future periods.

49. POST BALANCE SHEET EVENTS

(a) On 27 February 2008, 新奥(中國)燃氣投資有限公司 issued short-term debenture to third party debenture holders with face value of RMB600,000,000. The debentures are unsecured, interests bearing at 5.95% per annum and repayable one year after the issue date.

(b) Subsequent to the balance sheet date 31 December 2007, the Group has set up certain Companies established in the PRC. Details of investments are summarised as follows:

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
北海新奥航務有限公司 Beihai Xinao Navigation Company Limited	PRC	RMB19,600,000	49.00%	Construction of ports and shipside
開封新奥銀海車用燃氣有限公司 Kaifeng Xinao Vehicle Gas Company Limited	PRC	RMB6,000,000	44.00%	Sales of burning implement
長沙星沙新奥燃氣發展有限公司 Changsha Xingsha Xinao Gas Development Company Limited	PRC	RMB8,000,000	47.00%	Exploitation and sales of pipeline gas
廣東新奥鵬能源有限公司 Guangdong Xinao Longpang Energy Company Limited	PRC	RMB50,000,000	55.00%	Sales of liquefied petroleum gas
肇慶新奥燃氣有限公司 Zhaoqing Xinao Gas Company Limited	PRC	RMB38,000,000	100.00%	Investment in gas pipeline infrastructure
山西沁水新奥燃氣有限公司 ShanXi Qinshui Xinao Gas Company Limited	PRC	RMB50,000,000	100.00%	Production and sales of liquefied petroleum gas

Most of the above companies are established through cash contribution by the group and by the other investors.

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	US$1,195,600	95%	Sales of piped gas
北京新奧華鼎貿易有限公司 Beijing Xinao Huading Trading Company Limited#	PRC	US$1,800,000	100%	Retail of gas pipelines, related materials and equipment
北京新奧京昌燃氣有限公司 Beijing Xinao Jingchang Gas Company Limited*	PRC	RMB9,900,000	80%	Sales of piped gas
北京新奧京谷燃氣有限公司 Beijing Xinao Jinggu Gas Company Limited*	PRC	RMB9,900,000	90%	Sales of piped gas
蚌埠市高樂登液化氣有限責任公司 Bengbu City Gaoledeng Liquefied Gas Company Limited*	PRC	RMB1,160,000	70%	Sales of liquefied gas and gas appliance
蚌埠新奧燃氣有限公司 Bengbu Xinao Gas Company Limited*	PRC	RMB110,000,000	70%	Investment in gas pipeline infrastructure
蚌埠新奧燃氣發展有限公司 Bengbu Xinao Gas Development Company Limited*	PRC	US$600,000	70%	Sales of piped gas and bottled liquefied petroleum gas
蚌埠市鑫達液化氣有限責任公司 Bengbu Xinda Liquefied Gas Company Limited*	PRC	RMB500,000	70%	Sales of liquefied gas and gas appliance
濱州新奧燃氣工程有限公司 Binzhou Xinao Gas Engineering Company Limited#	PRC	US$600,000	100%	Investment in gas pipeline infrastructure
亳州新奧燃氣有限公司 Bozhou Xinao Gas Company Limited*	PRC	US$3,200,000	70%	Sales of piped gas
亳州新奧燃氣工程有限公司 Bozhou Xinao Gas Engineering Company Limited*	PRC	US$800,000	70%	Investment in gas pipeline infrastructure
長沙新奧燃氣有限公司 Changsha Xinao Gas Company Limited*	PRC	RMB120,000,000 (note 3)	55%	Investment in gas pipeline infrastructure and sales of piped gas
長沙星沙新奧燃氣有限公司 Changsha Xingsha Xinao Gas Company Limited*	PRC	RMB30,000,000	46.75% (note 5)	Investment in gas pipeline infrastructure and sales of piped gas
常州新奧燃氣發展有限公司 Changzhou Xinao Gas Development Company Limited*	PRC	US$600,000	60%	Sales of piped gas
常州新奧燃氣工程有限公司 Changzhou Xinao Gas Engineering Company Limited*	PRC	US$5,000,000	60%	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
巢湖新奧燃氣有限公司 Chaohu Xinao Gas Company Limited#	PRC	US$5,784,000	100%	Investment in gas pipeline infrastructure
巢湖新奧燃氣發展有限公司 Chaohu Xinao Gas Development Company Limited#	PRC	US$420,000	100%	Sales of piped gas
巢湖新奧車用燃氣有限公司 Chaohu Xinao Vehicle Gas Company Limited#	PRC	US$540,000	100%	Production and sale of gas for vehicle use
滁州新奧燃氣有限公司 Chuzhou Xinao Gas Company Limited*	PRC	US$7,100,000	90%	Sales of piped gas
滁州新奧燃氣工程有限公司 Chuzhou Xinao Gas Engineering Company Limited*	PRC	US$600,000	93%	Investment in gas pipeline infrastructure
鳳陽新奧燃氣有限公司 Fengyang Xinao Gas Company Limited#	PRC	US$2,000,000	100%	Sales of piped gas
鳳陽新奧燃氣工程有限公司 Fengyang Xinao Gas Engineering Company Limited#	PRC	US$600,000	100%	Investment in gas pipeline infrastructure
福州新奧清潔能源有限公司 Fuzhou Xinao Clean Energy Limited#	PRC	US$12,000,000	100%	Sales of CNG, LPG and LNG
貴港新奧燃氣有限公司 Guigang Xinao Gas Company Limited#	PRC	US$3,500,000	100%	Sales of piped gas
貴港新奧燃氣工程有限公司 Guigang Xinao Gas Engineering Company Limited#	PRC	US$500,000	100%	Investment in gas pipeline infrastructure
桂林新奧燃氣有限公司 Guilin Xinao Gas Company Limited*	PRC	US$6,000,000	60%	Sales of piped gas
桂林新奧燃氣發展有限公司 Guilin Xinao Gas Development Company Limited*	PRC	US$120,000	60%	Investment in gas pipeline infrastructure
固鎮新奧燃氣有限公司 Guzhen Xinao Gas Company Limited#	PRC	RMB4,500,000	100%	Investment in gas pipeline infrastructure
固鎮新奧燃氣發展有限公司 Guzhen Xinao Gas Development Company Limited#	PRC	RMB15,000,000	100%	Sales of piped gas and gas appliance
海安新奧燃氣有限公司 Haian Xinao Gas Company Limited#	PRC	US$1,200,000	100%	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
海寧新奧燃氣有限公司 Haining Xinao Gas Company Limited*	PRC	US$5,000,000	80%	Investment in gas pipeline infrastructure
海寧新奧燃氣發展有限公司 Haining Xinao Gas Development Company Limited*	PRC	US$800,000	86%	Sales of piped gas
邯鄲新奧邯運車用燃氣有限公司 HanDan XinAo Hanyun Vehicle Gas Company Limited*	PRC	RMB30,000,000	51%	Construction and operation of vehicle gas refuelling stations
杭州蕭山管道燃氣發展有限公司 Hangzhou Xiaoshan Piped Gas Development Company Limited*	PRC	RMB10,000,000	95%	Investment in gas pipeline infrastructure and sales of piped gas
淮安新奧燃氣有限公司 Huaian Xinao Gas Company Limited*	PRC	RMB35,000,000 (note 1)	100%	Investment in gas pipeline infrastructure and sales of piped gas and bottled liquefied petroleum gas
淮安新奧燃氣發展有限公司 Huaian Xinao Gas Development Company Limited#	PRC	RMB35,000,000	100%	Sales of piped gas and gas appliance
惠安縣燃氣有限公司 Huian County Gas Company Limited*	PRC	RMB20,000,000	60%	Investment in gas pipeline infrastructure and sales of piped gas
湖南新奧清潔能源有限公司 Hunan Xinao Clean Engergy Company Limited#	PRC	US$3,000,000	100%	Construction and operation of vehicle gas refuelling stations
湖南銀通科技有限責任公司 Hunan Yintong Technology Company Limited*	PRC	RMB9,803,900	51%	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 Xinao Gas Company Limited*	PRC	US$1,207,700	90%	Sales of piped gas
葫蘆島新奧燃氣發展有限公司 Huludao Xinao Gas Development Company Limited*	PRC	US$1,200,000	90%	Investment in gas pipeline infrastructure
金華新奧燃氣有限公司 Jinhua Xinao Gas Company Limited#	PRC	US$5,000,000	100%	Investment in gas pipeline infrastructure
金華新奧燃氣發展有限公司 Jinhua Xinao Gas Development Company Limited#	PRC	US$600,000	100%	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
晉江新奧燃氣有限公司 Jinjiang Xinao Gas Company Limited*	PRC	RMB60,000,000	60%	Investment in gas pipeline infrastructure and sales of piped gas
開封新奧燃氣有限公司 Kaifeng Xinao Gas Company Limited*	PRC	US$10,000,000	90%	Sales of piped gas
開封新奧燃氣工程有限公司 Kaifeng Xinao Gas Engineering Company Limited*	PRC	US$800,000	90%	Investment in gas pipeline infrastructure
來安新奧燃氣有限公司 Laian Xinao Gas Company Limited*	PRC	US$2,000,000	95%	Sales of piped gas
來安新奧燃氣工程有限公司 Laian Xinao Gas Engineering Company Limited*	PRC	US$600,000	95%	Investment in gas pipeline infrastructure
萊陽新奧燃氣有限公司 Laiyang Xinao Gas Company Limited*	PRC	US$5,000,000	95%	Sales of piped gas
萊陽新奧燃氣工程有限公司 Laiyang Xinao Gas Project Company Limited*	PRC	US$800,000	96.5%	Investment in gas pipeline infrastructure
萊陽新奧車用燃氣有限公司 Laiyang Xinao Vehicle Gas Company Limited#	PRC	US$2,000,000	100%	Construction and operation of vehicle gas refuelling stations
廊坊新奧燃氣有限公司 Langfang Xinao Gas Company Limited*	PRC	US$9,333,900	100%	Sales of piped gas
廊坊新奧燃氣設備有限公司 Langfang Xinao Gas Equipment Company Limited#	PRC	US$360,000	100%	Manufacture of stored value card gas metre
廊坊新奧軟件科技有限公司 Langfang Xinao Software Technology Company Limited#	PRC	US$120,000	100%	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	US$1,500,000	80%	Investment in gas pipeline infrastructure and sales of piped gas
連雲港新奧燃氣有限公司 Lianyungang Xinao Gas Company Limited*	PRC	RMB49,512,100	70%	Sales of piped gas
連雲港新奧燃氣工程有限公司 Lianyungang Xinao Gas Development Company Limited*	PRC	RMB10,000,000	70%	Investment in gas pipeline infrastructure
聊城新奧燃氣有限公司 Liaocheng Xinao Gas Company Limited*	PRC	US$1,933,200	90%	Sales of piped gas
聊城新奧燃氣工程有限公司 Liaocheng Xinao Gas Engineering Company Limited*	PRC	US$1,200,000	93%	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
六安新奧燃氣有限公司 Luan Xinao Gas Company Limited#	PRC	RMB20,000,000	100%	Sales of piped gas
六安新奧燃氣工程有限公司 Luan Xinao Gas Project Company Limited#	PRC	US$800,000	100%	Investment in gas pipeline infrastructure
洛陽市明炬燃氣工程有限責任公司 Luoyang City Mingju Gas Engineering Company Limited*	PRC	RMB5,005,000	70%	Investment in gas pipeline infrastructure
洛陽市通奧管道燃氣器具有限公司 Luoyang City Tongao Piped Gas Appliance Company Limited*	PRC	RMB786,000	70%	Production and sale of gas appliance
洛陽市中天燃氣工程設計有限公司 Luoyang City Zhongtian Gas Engineering Design Company Limited*	PRC	RMB753,000	70%	Investment in gas pipeline infrastructure
洛陽新奧華油燃氣有限公司 Luoyang Xinao Huayou Gas Company Limited*	PRC	RMB160,000,000	70%	Investment in gas pipeline infrastructure and sales of piped gas
洛陽新奧液化氣有限公司 Luoyang Xinao Liquefied Gas Limited#	PRC	RMB16,090,000	100%	Sales of liquefied gas and gas appliance
鹿泉新奧車用燃氣有限公司 Luquan Xinao Vehicle Gas Company Limited#	PRC	US$1,610,000	100%	Production and sale of compressed natural gas
南安市燃氣有限公司 Nanan City Gas Company Limited*	PRC	RMB30,000,000	42% (note 6)	Investment in gas pipeline infrastructure and sales of piped gas
南通新奧燃氣工程有限公司 Nantong Xinao Gas Technology Company Limited#	PRC	US$800,000	100%	Investment in gas pipeline infrastructure
南通新奧車用燃氣發展有限公司 Nantong Xinao Vehicle Gas Development Company Limited#	PRC	US$5,000,000	100%	Construction and operation of vehicle gas refuelling stations
青島新奧燃氣有限公司 Qingdao Xinao Gas Company Limited*	PRC	RMB20,000,000	90%	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	US$600,000	90%	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
青島新奧膠城燃氣有限公司 Qingdao Xinao Jiaocheng Gas Company Limited*	PRC	US$5,000,000	90%	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	HK$4,500,000	100%	Investment in gas pipeline infrastructure
青島新奧膠南燃氣有限公司 Qingdao Xinao Jiaonan Gas Company Limited#	PRC	US$4,400,000	90%	Sales of piped gas
青島新奧膠南燃氣工程有限公司 Qingdao Xinao Jiaonan Gas Engineering Company Limited#	PRC	US$1,000,000	100%	Investment in gas pipeline infrastructure
青島新奧新城燃氣有限公司 Qingdao Xinao Xincheng Gas Company Limited*	PRC	US$1,610,000	90%	Sales of piped gas
青島新奧新城燃氣工程有限公司 Qingdao Xinao Xincheng Gas Engineering Company Limited*	PRC	US$800,000	93%	Investment in gas pipeline infrastructure
全椒新奧燃氣有限公司 Quanjiao Xinao Gas Company Limited#	PRC	US$1,590,000	100%	Sales of piped gas and gas appliance
全椒新奧燃氣工程有限公司 Quanjiao Xinao Gas Engineering Company Limited#	PRC	US$500,000	100%	Investment in gas pipeline infrastructure
泉州市燃氣有限公司 Quanzhou City Gas Company Limited*	PRC	RMB450,000,000	60%	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	RMB50,000,000	90%	Investment in gas pipeline infrastructure
衢州新奧燃氣發展有限公司 Quzhou Xinao Gas Development Company Limited*	PRC	US$600,000	90%	Sales of piped gas
日照新奧燃氣有限公司 Rizhao Xinao Gas Company Limited*	PRC	US$5,600,000	80%	Sales of piped gas
日照新奧燃氣工程有限公司 Rizhao Xinao Gas Engineering Company Limited*	PRC	US$1,210,000	86%	Investment in gas pipeline infrastructure
日照新奧實業有限公司 Rizhao Xinao Industry Company Limited#	PRC	RMB5,000,000	100%	Investment in gas pipeline infrastructure and sales of piped gas

50. PARTICULAR OF PRINCIPAL SUBSIDIARIES (continued)

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by Company	Principal activities
商丘新奧燃氣有限公司 Shangqiu Xinao Gas Company Limited#	PRC	US$7,000,000	100%	Sales of piped gas
商丘新奧燃氣工程有限公司 Shangqiu Xinao Gas Engineering Company Limited#	PRC	US$3,000,000	100%	Investment in gas pipeline infrastructure
汕頭新奧燃氣有限公司 Shantou Xinao Gas Company Limited*	PRC	RMB34,580,000	51%	Sales of piped gas
石家莊新奧燃氣有限公司 Shijiazhuang Xinao Gas Company Limited*	PRC	RMB300,000,000	60%	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奧車用燃氣有限公司 Shijiazhuang Xinao Vehicle Gas Company Limited*	PRC	RMB1,000,000	39% (note 4)	Production and sale of gas for vehicle use
石獅新奧燃氣有限公司 Shishi Xinao Gas Company Limited*	PRC	RMB10,000,000	60%	Investment in gas pipeline infrastructure and sales of piped gas
泰興新奧燃氣有限公司 Taixing Xinao Gas Company Limited*	PRC	US$1,200,000	90%	Sales of piped gas
泰興新奧燃氣工程有限公司 Taixing Xinao Gas Engineering Company Limited*	PRC	US$800,000	90%	Investment in gas pipeline infrastructure
台州新奧燃氣有限公司 Taizhou Xinao Gas Company Limited*	PRC	US$5,000,000	80%	Investment in gas pipeline infrastructure and sales of piped gas
通遼新奧燃氣有限公司 Tongliao Xinao Gas Company Limited*	PRC	US$3,000,000	80%	Sales of piped gas
通遼新奧燃氣發展有限公司 Tongliao Xinao Gas Development Company Limited*	PRC	US$600,000	80%	Investment in gas pipeline infrastructure
溫州龍灣新奧燃氣有限公司 Wenzhou Longwan Xinao Gas Company Limited#	PRC	US$9,500,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
溫州新奧燃氣有限公司 Wenzhou Xinao Gas Company Limited#	PRC	US$3,100,000	100%	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
溫州新奧燃氣工程有限公司 Wenzhou Xinao Gas Engineering Company Limited#	PRC	US$700,000	100%	Investment in gas pipeline infrastructure
湘潭新奧燃氣有限公司 Xiangtan Xinao Gas Company Limited*	PRC	RMB70,000,000 (note 2)	85%	Investment in gas pipeline infrastructure and sales of piped gas
湘潭新奧燃氣發展有限公司 Xiangtan Xinao Gas Development Company Limited*	PRC	RMB70,000,000	85%	Sales of piped gas and gas appliance
蕭山利達管道燃氣有限公司 Xiaoshan Lida Piped Gas Company Limited#	PRC	RMB3,000,000	100%	Sales of piped gas and gas appliance
新安新奧燃氣有限公司 Xinan Xinao Gas Company Limited*	PRC	RMB10,000,000	63%	Sales of piped gas and gas appliance
新奧（中國）燃氣投資有限公司 Xinao (China) Gas Investment Company Limited#	PRC	US$231,778,124	100%	Investment holding
新奧能源物流有限公司 Xinao Energy Logistics Company Limited#	PRC	US$12,400,000	100%	Transportation of oil products and gas
新奧能源銷售有限公司 Xinao Energy Sales Company Limited#	PRC	US$6,200,000	100%	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	US$6,000,000	100%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas
新奧燃氣工程有限公司 Xinao Gas Engineering Company Limited#	PRC	US$7,000,000	100%	Investment in gas pipeline infrastructure
Xinao Gas Investment Group Limited	British Virgin Island	US$1,000	100%	Investment holding
新奧（廊坊）燃氣技術研究發展有限公司 Xinao Gas Langfang Technology Research and Development Company Limited#	PRC	US$1,400,000	100%	Technology research and development, product development

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
興化新奧燃氣有限公司 Xinghua Xinao Gas Company Limited#	PRC	US$1,200,000	100%	Sales of piped gas
興化新奧燃氣工程有限公司 Xinghua Xinao Gas Engineering Company Limited#	PRC	US$600,000	100%	Investment in gas pipeline infrastructure
邢台新奧車用燃氣有限公司 Xingtai Xinao Vehicle Gas Company Limited*	PRC	RMB20,000,000	90%	Construction and operation of vehicle gas refuelling stations
新鄉新奧燃氣有限公司 Xinxiang Xinao Gas Company Limited*	PRC	US$10,000,000	95%	Sales of piped gas and bottled liquefied petroleum gas
新鄉新奧燃氣工程有限公司 Xinxiang Xinao Gas Engineering Company Limited*	PRC	US$1,200,000	96.5%	Investment in gas pipeline infrastructure
許昌新奧清潔能源有限公司 Xuchang Xinao Clean Energy Company Limited*	PRC	RMB4,000,000	80%	Construction and operation of vehicle gas refuelling stations
鹽城新奧燃氣有限公司 Yancheng Xinao Gas Company Limited*	PRC	RMB50,000,000	70%	Investment in gas pipeline infrastructure
鹽城新奧燃氣發展有限公司 Yancheng Xinao Gas Development Company Limited*	PRC	US$600,000	79%	Sales of piped gas
鹽城新奧天然氣技術服務有限公司 Yancheng Xinao Natural Gas Technical Services Company Limited#	PRC	RMB500,000	100%	Provision of technical service on gas application
鹽城新城新奧燃氣有限公司 Yancheng Xincheng Xinao Gas Company Limited#	PRC	HK$20,000,000	100%	Investment in gas pipeline infrastructure and sales
鹽城新城新奧燃氣發展有限公司 Yancheng Xincheng Xinao Gas Development Limited#	PRC	RMB10,000,000	100%	Investment in gas pipeline infrastructure
揚州新奧燃氣有限公司 Yangzhou Xinao Gas Company Limited#	PRC	US$1,300,000	100%	Sales of piped gas
揚州新奧燃氣工程有限公司 Yangzhou Xinao Gas Engineering Company Limited#	PRC	US$800,000	100%	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
煙台牟平新奧天然氣加氣有限公司 Yantai Muping Xinao Gas Refuelling Limited*	PRC	RMB7,000,000	58%	Construction and operation of vehicle gas refuelling stations
煙台新奧燃氣有限公司 Yantai Xinao Gas Company Limited#	PRC	US$2,100,000	100%	Investment in gas pipeline infrastructure and sales of piped gas
煙台新奧實業有限公司 Yantai Xinao Industry Company Limited*	PRC	RMB55,000,000	60%	CNG vehicle refuelling station, pipeline construction, installation of gas equipment, production and sale of gas equipment and others
永康新奧燃氣有限公司 Yongkang Xinao Gas Company Limited#	PRC	US$8,000,000	100%	Sales of piped gas
永康新奧燃氣工程有限公司 Yongkang Xinao Gas Engineering Company Limited#	PRC	US$800,000	100%	Investment in gas pipeline infrastructure
湛江新奧燃氣有限公司 Zhanjiang Xinao Gas Company Limited*	PRC	RMB85,000,000	90%	Investment in gas pipeline infrastructure and sales of piped gas
肇慶市高新區新奧燃氣有限公司 Zhaoqing City High-New Zone Xinao Gas Company Limited*	PRC	US$2,100,000	95%	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	US$5,000,000	100%	Sale of gas for vehicle use
鄒平新奧燃氣有限公司 Zouping Xinao Gas Company Limited#	PRC	US$1,200,000	100%	Sales of piped gas
諸城新奧燃氣有限公司 Zhucheng Xinao Gas Company Limited#	PRC	US$3,000,000	100%	Sales of piped gas and bottled liquefied petroleum gas
諸城新奧管道工程有限公司 Zhucheng Xinao Pipeline Engineering Company Limited#	PRC	US$800,000	100%	Investment in gas pipeline infrastructure
株洲新奧燃氣有限公司 Zhuzhou Xinao Gas Limited*	PRC	RMB135,000,000	55%	Investment in gas pipeline infrastructure and sales of piped gas

50. PARTICULAR OF PRINCIPAL SUBSIDIARIES *(continued)*

Notes:

1. The registered capital of this subsidiary has been increased from RMB30,000,000 to RMB35,000,000 during the year ended 31 December 2007.
2. The registered capital of this subsidiary has been reduced from RMB100,000,000 to RMB70,000,000 during the year ended 31 December 2007.
3. The registered capital of this subsidiary has been reduced from RMB150,000,000 to RMB120,000,000 during the year ended 31 December 2007.
4. The Group holds 39% indirect interest in 石家莊新奧車用燃氣有限公司 through the 65% direct interest held by a 60% owned subsidiary, 石家莊新奧燃氣有限公司. Therefore, the Group has control over this entity and it is considered as a subsidiary of the Company
5. The Group holds 46.75% indirect interest in 長沙星沙新奧燃氣有限公司 through the 85% direct interest held by a 55% owned subsidiary, 長沙新奧燃氣有限公司. Therefore, the Group has control over this entity and it is considered as a subsidiary of the Company.
6. The Group holds 42% indirect interest in 南安市燃氣有限公司 through the 70% direct interest held by a 60% owned subsidiary, 泉州市燃氣有限公司. Therefore, the Group has control over this entity and it is considered as a subsidiary of the Company.

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

All of the above subsidiaries operate principally in their respective place of incorporation/establishment, except for Xinao Gas Investment Group Limited, whose place of operation is the PRC.

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

None of the subsidiaries had issued any debt securities at the year ended 31 December 2007 or at any time during the year except for 新奧(中國)燃氣投資 which has issued short-term debenture to third party debenture holders with face value of RMB400,000,000, in which the Group has no interest.

* Sino-foreign equity joint venture

Wholly foreign owned enterprise

51. COMPARATIVE INFORMATION

The disclosure of cost of sales, other income, administrative expenses, other expenses share-based payment and segment information has been restated to conform with current year's presentation. The following comparative figure in the consolidated income statement has been restated:

	As originally Stated RMB'000	Restatement RMB'000	As restated RMB'000
Cost of sales	2,203,313	10,765	2,214,078
Other income	201,358	(16,420)	184,938
Administrative expenses	545,585	82,893	628,478
Other expenses	59,981	(59,981)	–
Share-based payment expenses	57,370	(57,370)	–
Loss on disposal of property, plant and equipment	–	7,273	7,273

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