ENN 新奥

XinAo Gas Holdings Limited
(Stock code: 2688)

ANNUAL REPORT 2008

EMISSION REDUCTION
Aligning with Policy for Clean China

SUSTAINABLE DEVELOPMENT
Energising Growth through Energy Innovation

XinAo Gas — The Future Comes First

Capturing precisely the business opportunities arose from the government's proactive promotion and utilisation of clean energy and the relevant measures, the Group steadily expands the distribution network of clean energy and on this basis, devotes to provide tailor-made energy services to all kinds of customers. While stimulating the long-term business growth, our utmost objective is to bring a green living to every piece of land in China.

ENN

▸ Energy & Innovation
Ennovation

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

Operational Locations

City	Connectable urban population

INNER MONGOLIA (1 project)

44	Tongliao	441,000

BEIJING MUNICIPALITY (3 projects)

3	Miyun	162,000
6	Pinggu	116,000
8	Changping	107,000

HEBEI (3 projects)

1	Langfang	462,000
29	Shijiazhuang	2,377,000
48	Luquan	86,000

HENAN (5 projects)

24	Xinxiang	1,002,000
40	Kaifeng	842,000
49	Shangqiu	1,473,000
55	Luoyang	1,528,000
68	Xinan	102,000

ANHUI (9 projects)

14	Bengbu	921,000
21	Chuzhou	245,000
22	Luan	329,000
26	Bozhou	221,000
30	Chaohu	226,000
58	Fengyang	106,000
63	Laian	85,000
65	Qianjiao	109,000
66	Guzhen	100,000

HUNAN (3 projects)

36	Xiangtan	719,000
39	Changsha	2,187,000
42	Zhuzhou	879,000

GUANGXI AUTONOMOUS REGION (2 projects)

45	Gulin	757,000
51	Guigang	380,000

LIAONING (2 projects)

4	Huludao	466,000
5	Xingcheng	108,000

SHANDONG (11 projects)

2	Liaocheng	564,000
7	Huangdao	327,000
9	Zhucheng	467,000
10	Chengyang	490,000
11	Yantai Development Zone[(1)]	–
12	Yantai	1,800,000
15	Zouping	189,000
17	Laiyang	252,000
23	Rizhao	304,000
41	Jiaozhou	230,000
43	Jiaonan	383,000

JIANGSU (8 projects)

13	Gaoyou	150,000
16	Taixing	233,000
18	Yancheng	839,000
19	Huaian	1,151,000
20	Haian	190,000
26	Xinghua	171,000
32	Wujin	975,000
38	Lianyungang	800,000

ZHEJIANG (12 projects)

27	Haining	226,000
28	Quzhou	267,000
31	Lanxi	124,000
33	Jinhua	115,000
34	Wenzhou[(2)]	–
35	Longwan	325,000
46	Huzhou	220,000
52	Taizhou	588,000
53	Yongkang	224,000
57	Xiaoshan	401,000
64	Ningbo (Yinzhou)	244,000
72	Haiyan	100,000

FUJIAN (7 projects)

56	Quanzhou	1,070,000
59	Nanan	363,000
60	Huian	136,000
61	Shishi	101,000
62	Jinjiang	370,000
67	Dehua	100,000
70	Quangang	373,000

GUANGDONG (6 projects)

37	Dongguan	7,550,000
47	Zhanjiang	632,000
50	Shantou	1,441,000
54	Zhaoqing Development Zone	26,000
69	Zhaoqing	497,000
71	Guangzhou (Zengcheng)	100,000

Total: 41,644,000

Remarks:

(1) The population of Yantai Development Zone is included in Yantai.

(2) Operational location in Wenzhou is in the development zone and does not have population data.

(3) The projects are numbered in accordance to the sequence of being obtained by the Group.

OUR DEVELOPMENT OBJECTIVE IS TO BECOME A LEADING SERVICE PROVIDER IN THE CLEAN ENERGY INDUSTRY IN CHINA.

corporate information

Board of Directors

Executive directors

Wang Yusuo (Chairman)
Chen Jiacheng (Chief Executive Officer)
Zhao Jinfeng
Yu Jianchao
Cheung Yip Sang
Cheng Chak Ngok
Liang Zhiwei
Zhai Xiaoqin

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, FCPA, ACIS, ACS

Authorised Representatives

Yu Jianchao
Cheng Chak Ngok

Members of the Audit Committee

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

Members of the Remuneration Committee

Yu Jianchao
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 China

Huaxiang Road
Langfang Economic and Technical Development Zone
Langfang City
Hebei Province
China

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
Wanchai
Hong Kong

Stock Exchange Listing

The Stock Exchange of Hong Kong Limited

Stock Code

2688

Auditors

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

Legal Adviser

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

Principal Bankers

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

Website

www.xinaogas.com

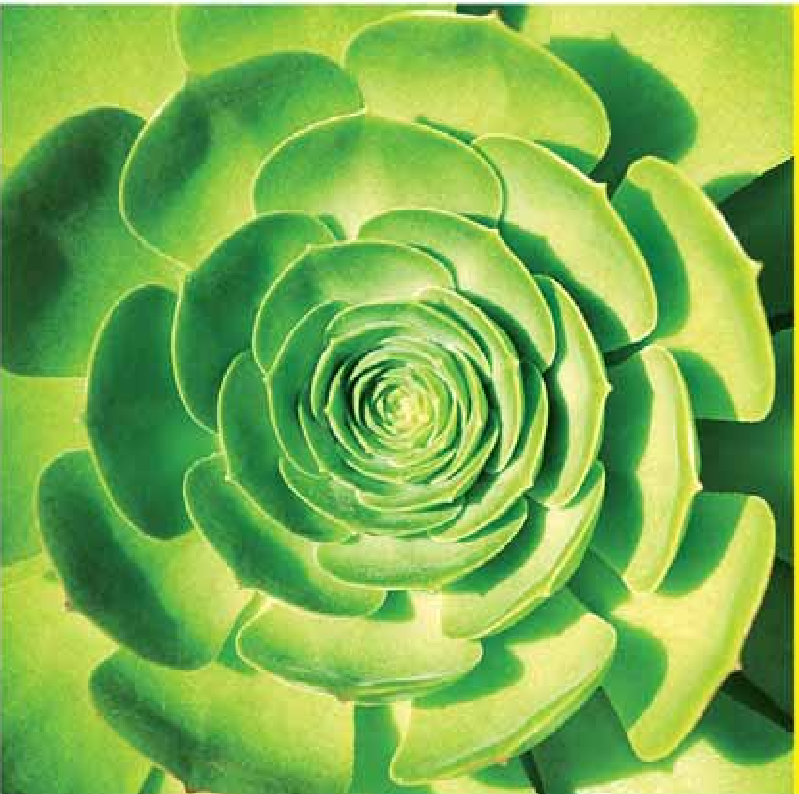
E-mail Address

xinao@xinaogas.com

A GREEN LIVING.....

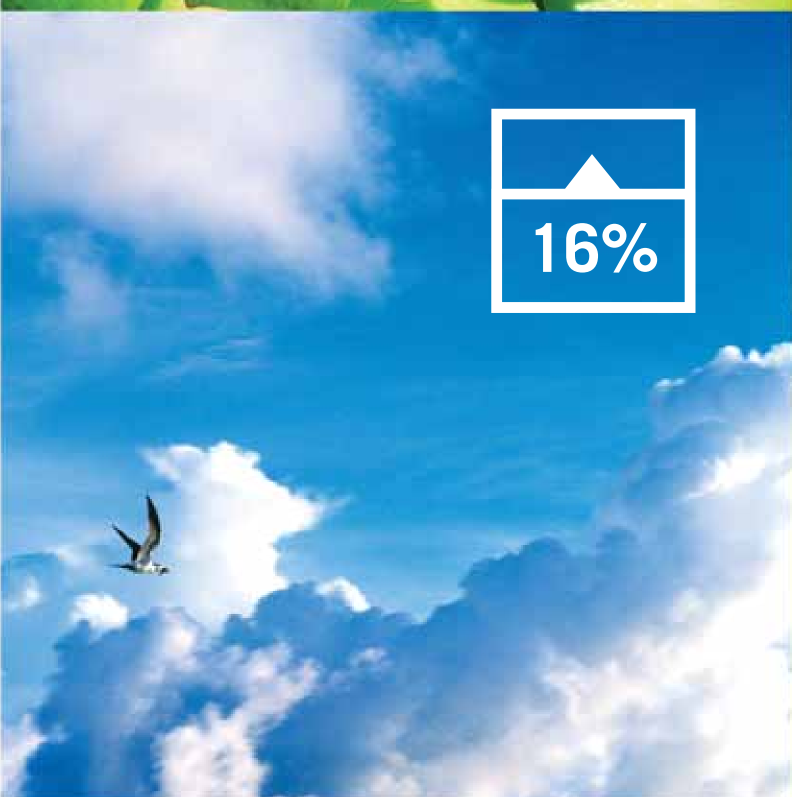
With the increasing awareness in environmental protection and enhancing life quality, natural gas, as a clean energy, has been widely promoted and used to bring a health-oriented green life.

Q&A



WHERE IS NATURAL GAS USED?

For residential users, natural gas can be used for warming, water heating and cooking. For commercial and industrial users, natural gas is a good substitute of coal and oil as a burning fuel for operational purpose. What is more, natural gas has been replacing gasoline in the public transportation sector.



The compound annual growth rate of natural gas consumption in China from 2000 to 2008 is 16%.

chairman's statement

WE ARE READY FOR FACING EVERY CHALLENGE AND GRASP EVERY OPPORTUNITY IN 2009. WE ARE CONFIDENT THAT OUR PRECISE STRATEGIC PLAN, INNOVATIVE BUSINESS MODELS, ADVANCED MANAGEMENT CONCEPT AND COMMITTED STAFF WILL ENABLE US TO ATTAIN LONG-TERM BUSINESS DEVELOPMENT AND GROWTH.

WANG YUSUO
Chairman

Results of the Year

After achieving encouraging performance in previous years, the Group continued to record substantial growth in its results during the year. The turnover and profit for the year reached RMB8,265,508,000 and RMB870,724,000 respectively, representing increases of 43.6% and 23.3% over last year respectively. Earnings per share increased by 21.8% to RMB62.5 cents.

This year, the Group secured 4 new city piped gas projects, thus raising the number of secured projects by the Group in China to 72, of which two were located in Guangdong Province while other two were located in Zhejiang Province and Fujian Province respectively. Our total connectable population coverage was also on the rise, reaching 41,644,000. On the other hand, the Group also actively developed its vehicle refuelling stations business. During the year, 39 new vehicle refuelling stations were built and put into operation. As at the end of 2008, the number of vehicle refuelling stations operated by the Group was 128 and the proportion of gas sold in the vehicle segment as compared to the total volume of gas sold increased from 8.5% to 13.0%. The growth in vehicle gas sales volume not only reflected the potential for further development in gas refuelling stations business but also further secured the Group's future revenue from gas sales.

During the year, the Group completed piped natural gas connections to 710,035 residential households and 2,548 commercial/industrial ("C/I") customers (connected to gas appliances with total installed designed daily capacity of 2,324,171 cubic meters). As of the end of 2008, the accumulated number of residential households and C/I customers of natural gas were 3,600,387 and 10,857 (connected to gas appliances with a total installed designed daily capacity of 9,009,892 cubic meters) respectively, and the accumulated number of residential households and C/I customers of all piped gas were 3,745,145 and 11,288 (connected to gas appliances with a total installed designed daily capacity of 9,518,438 cubic meters) respectively. The sales volume of natural gas for the year grew by 25.2% as compared to last year to 2,200,291,570 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 the end of 2008, the Group's cash on hand was equivalent to RMB1,725,358,000 (2007: RMB1,693,459,000), and its total debts was equivalent to RMB5,403,140,000 (2007: RMB5,054,324,000). Its net gearing ratio, i.e. the ratio of net debt to equity (including minority interests), was 67.6% (2007: 72.1%). With the Group's efforts in vigorously raising the penetration rate of existing projects and expanding the business of gas refuelling stations, revenue from gas sales has become the major source of income for the Group. Such optimised revenue structure will create long-term and stable cash flow for the Group, and thus allowing the Group to enjoy sufficient financial resources to pursue sustainable development.

Corporate Management

During the year, the Group continued to carry out informatisation program in full swing with most of the group companies implementing the Enterprise Resource Planning ("ERP") system and our customer caring and services system going online. These systems ensure more efficient and accurate operational and management information to be delivered to the management and thereby optimising the effectiveness of the management's decision. In order to ensure the efficient transmission and the thorough and effective implementation of the Group's strategies, we have successfully promoted and implemented the strategic performance management project in all group companies during the year, and finished the refinement on the personal balanced scorecard system according to the actual situations in the Group. With such systems

chairman's statement

in place, every employee of the Group completes their work through strategies and this realises the smooth transition from strategic planning to execution and from organisation level to individual level. It also guarantees speedy conveying and effective implementation of strategies. During the year, the Group was awarded "Star Organisation of Strategy Execution in China 2008" by the China affiliate of the Balanced Scorecard Institute.

International Awards

During the year, our annual report was awarded "Silver, Annual Reports: Energy" by the Annual International Galaxy Awards. We also received the honor of "Gold, Overall Annual Report: Gas Distribution, Transportation and Transmission" from the International ARC Awards. These remarkable achievements fully evidenced the accurate and clear disclosure of information in our annual reports and our efficient communication with our shareholders.

Human Resources

As at the end of 2008, the Group had 15,776 employees (2007: 14,800 employees). In addition to the increasing number of gas projects, the Group has also increased its manpower to meet the demand arising from normal business development.

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 indispensable 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 pursue 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 for the Group's future sustainable and healthy development.

In addition, through position restructuring and ability enhancement programs, the Group has established a capability-based human resources system in line with the Group's strategies which will continuously enhance the capability of staff and provide necessary support for the organisation, thereby ensuring that the targets of the Group can be achieved.

Prospects

The Chinese government has taken the initiative in introducing a series of new ideologies and measures, proactively promoting the adjustment of energy structure and putting the country's energy sector on the track of sustainable development. In order to establish an energy saving and environmental friendly society, the Chinese government has gradually regulated the economic structure, encouraged other modes of growth and insisted on attaining development in an economic, clean and safe manner. This will definitely benefit the development of clean energy like natural gas and other substitute energy.

In 2008, the Chinese government has promulgated the "Circular Economy Promotion Law of the People's Republic of China" ("Circular Economy Promotion Law") which comes into effect on 1 January 2009. The following is expressly regulated in the Circular Economy Promotion Law: "the state encourages and support enterprises to use highly efficient and oil-saving products. Enterprises in such industries as electric power, oil processing, chemical industry, steel, non-ferrous metal and building materials etc. must replace fuel oil with clean energy, e.g., clean coal, petroleum coke, natural gas, etc. within the scope and time limit prescribed by the state, and must stop using fuel generator sets and oil boilers that fail to satisfy the relevant state provisions". Apart from this, the Chinese government has announced ten measures during the year to promote economic growth by means of further boosting internal demand. Among the measures, the establishment of substantial energy projects and increase in investment in the energy sector have been clearly listed as one of the important components, which include investments amounting to RMB200 billion in petroleum and gas projects, RMB1,000 billion in environmental protection projects such as energy saving and emission reduction, as well as over RMB140 billion in West-to-East Pipeline II. The promulgation and implementation of such laws and policies have fully demonstrated the determination of the Chinese government to promote the use of clean energy. It is believed that with the encouragement and support of the said government policies, the Group is well positioned to secure gas supply and attract new customers.

Taking advantages of the favourable government policies, natural gas infrastructure has been further developed. There is a rapid growth in both the supply and demand of natural gas in China. In 2000, total consumption of natural gas in the state was 24.5 billion cubic meters, while the figure rose to 80.7 billion cubic meters in 2008, representing an average compound growth rate of 16% per annum. According to the "Natural Gas Pipeline Network and the Eleventh Five Year Plan" issued by the Chinese government, in 2010, the construction of the national natural gas pipeline network will be basically completed and the supply capacity of natural gas will then reach 92 billion cubic meters, showing enormous potential for development in this industry.

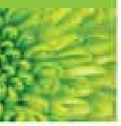
Besides the increase in natural gas supply resulted from the construction of the natural gas pipeline network, we have also adopted the strategy of diversified energy supply. The coal-produced dimethyl ether ("DME") project in Inner Mongolia (the investment of which was participated by the Group) has progressed smoothly this year and is expected to commence production in 2009. In addition, the Group has invested in other two liquefied natural gas ("LNG") projects in Jincheng, Shanxi and Yinchuan, Ningxia respectively during the year. After production of these projects commence in 2009, it is expected that the daily LNG supply capacity will reach 900,000 cubic meters and the gas sources of the Group will be further strengthened, thereby securing more sufficient energy supply for the market development of the Group.

The global financial tsunami arose during the year has affected the economy. However, by fully utilising its good management quality, the Group has not only strengthened its cost control but also devoted more effort in expanding the market. As a result, various business targets were achieved successfully, reflecting the Group's ability to cope with risks and generate profits.

In 2009, in view of the impact from the financial tsunami and the slowdown of global economy, the Group will continue to expand its gas distribution network systematically and acquire new projects, as well as enhance the standard of its customer services, while still maintaining a healthy cash flow. Through the execution and implementation of informatisation and strategic performance programs, the Group's cost control will be further strengthened and the operational efficiency will also be enhanced. The effect of the Group's economies of scale will be more obvious and will reflect in our business. In addition, the innovation of new business models such as energy services will also be accelerated. As at the end of 2008, the Group has entered into memorandum of understanding with 11 cities or parks whereby the Group will provide customised plans for clean energy usage and solutions for energy saving and emission reduction, thus supplying highly effective energy services. As the Group helps the country to achieve sustainable growth resulting from boosting the supply of clean energy continuously, the total value of the whole clean energy chain will be enhanced at the same time. Devoted to become the leading operator in the energy services sector, 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

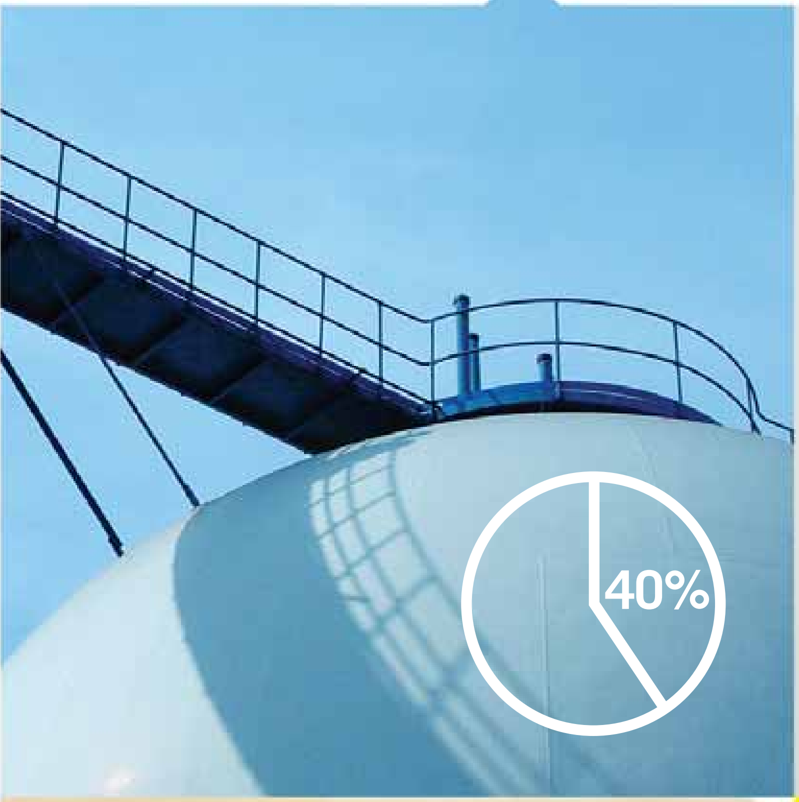
8 April 2009



A GREEN ENVIRONMENT.....

**XinAo Gas is devoted to bring a clear sky
through the provision of clean, safe
and reliable energy.**

The carbon dioxide produced by the combustion of natural gas is only 40% of those by coal.



WHAT IS “CLEAN ENERGY”?

Clean energy refers to energy which itself will not produce any pollutant upon combustion or which pollutant can be eliminated by natural eco-cycle. The clean energy which XinAo Gas can supply include natural gas, liquefied petroleum gas (LPG) and dimethyl ether (DME).

Q&A

project operational data

Operational data as at 31 December 2008

Operational location[1]	Year of establishment	Length of existing pipelines (km)[2]	No. of existing natural gas processing stations	Daily capacity of existing natural gas stations (m^3)
1 Langfang	1993	374.0	3	410,000
2 Liaocheng	2000	444.2	2	100,000
3 Miyun	2000	191.3	3	168,000
4 Huludao(3)	2000	221.1	1	30,000
5 Xingcheng	2002	–	–	–
6 Pinggu	2001	131.5	1	72,000
7 Huangdao	2001	291.9	1	72,000
8 Changping	2001	131.4	1	102,000
9 Zhucheng	2001	93.2	–	–
10 Chengyang	2001	282.0	3	400,000
11 Yantai Development Zone	2001	10.4	1	30,000
12 Yantai	2004	444.1	2	340,000
13 Gaoyou	2001	49.8	1	4,600
14 Bengbu	2002	239.5	1	96,000
15 Zouping	2002	73.1	1	130,000
16 Taixing	2002	133.4	2	396,000
17 Laiyang	2002	160.1	1	72,000
18 Yancheng	2002	187.6	1	30,000
19 Huaian	2002	235.4	2	70,000
20 Haian	2002	82.8	1	4,000
21 Chuzhou	2002	260.5	1	270,000
22 Luan	2003	103.2	1	60,000
23 Rizhao	2002	220.8	1	300,000
24 Xinxiang	2002	313.2	2	520,000
25 Xinghua	2002	59.4	1	50,000
26 Bozhou	2003	89.0	1	46,000
27 Haining	2002	198.0	2	396,000
28 Quzhou	2002	124.8	3	280,000
29 Shijiazhuang	2002	506.3	1	602,000
30 Chaohu	2003	72.0	1	120,000
31 Lanxi	2003	27.7	–	–
32 Wujin	2003	711.1	2	430,000
33 Jinhua	2003	78.6	2	210,000
34 Wenzhou	2003	57.2	1	120,000
35 Longwan(4)	2004	0.9	–	–
36 Xiangtan	2003	189.4	2	180,000
37 Dongguan	2003	663.0	4	459,000
38 Lianyungang	2003	408.3	2	200,000
39 Changsha	2003	906.3	6	1,633,250
40 Kaifeng	2003	548.3	1	100,000
41 Jiaozhou	2003	150.1	1	40,000
42 Zhuzhou	2003	275.9	1	100,000
43 Jiaonan	2003	196.3	1	120,000
44 Tongliao	2004	60.0	1	50,000
45 Guilin	2004	143.0	2	240,000
46 Huzhou	2004	138.7	1	620,000
47 Zhanjiang	2004	195.0	1	360,000
48 Luquan	2004	19.0	1	1,800,000
49 Shangqiu	2004	109.8	1	240,000
50 Shantou	2004	54.8	2	20,000
51 Guigang	2004	88.4	1	100,000
52 Huangyan	2005	82.4	–	–
53 Yongkang	2005	59.4	1	120,000
54 Zhaoqing Development Zone	2005	23.5	1	25,000
55 Luoyang	2006	728.1	3	1,000,800
56 Quanzhou	2006	214.7	5	567,000
57 Xiaoshan	1994	213.2	–	–
58 Fengyang	2005	1.0	–	–
59 Nanan	2006	23.3	1	120,000
60 Huian	2006	34.1	–	–
61 Shishi	2006	40.4	–	–
62 Jinjiang	2006	85.6	1	100,000
63 Laian	2006	36.5	–	–
64 Ningbo	2007	171.0	–	–
65 Quanjiao	2007	39.6	–	–
66 Guzhen	2007	1.1	–	–
67 Dehua	2003	65.3	1	240,000
68 Xinan	2007	10.2	1	–
69 Quangang	2008	–	–	–
70 Zengcheng	2007	–	–	–
71 Zhaoqing	2008	27.0	1	12,000
72 Haiyan	2008	–	–	–
Other project				
Shanghai (CNG)	2002	–	–	–
Shanghai (LPG)	2007	–	–	–
Shanghai (DME)	2007	–	–	–
Other gas refuelling station projects				
Total		**12,584.4**	**90**	**14,377,650**

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 Gas connections			Number of gas refuelling stations
Residential households	Commercial/ Industrial customers	Installed designed daily capacity for commercial/ industrial customers (m^3)	
128,011	603	391,090	4
84,164	319	83,269	2
38,364	137	101,380	–
102,149	225	102,271	1
–	–	–	–
20,775	96	91,472	–
80,692	125	297,390	1
32,558	219	62,764	–
33,918	59	16,907	–
91,977	162	140,302	2
–	1	12,000	–
224,797	392	368,233	6
13,986	91	10,615	–
95,422	177	232,455	5
16,020	46	64,044	–
20,231	245	71,953	–
30,090	52	25,193	1
66,984	273	201,110	2
82,359	141	124,714	2
14,771	101	27,692	–
46,642	156	176,557	2
38,759	70	15,547	1
48,756	71	47,809	1
127,966	435	229,658	3
11,671	78	13,329	–
14,559	62	11,742	2
23,207	97	92,665	–
35,160	88	33,834	–
400,486	615	538,619	16
32,211	108	44,916	2
5,983	31	9,925	–
67,659	562	703,702	3
32,625	112	43,811	–
7,792	25	49,431	–
454	–	–	–
103,152	323	155,970	3
121,962	711	688,330	3
113,257	240	184,523	3
401,642	737	1,097,323	6
136,834	702	156,380	1
36,201	86	99,505	1
192,908	691	973,146	3
28,062	21	70,796	1
38,300	49	14,927	–
46,466	56	30,066	1
35,544	92	102,326	2
35,524	134	64,099	2
6,595	1	70	–
25,578	125	12,625	2
25,410	64	47,482	–
9,487	54	29,000	–
20,432	50	13,106	–
6,096	51	40,033	–
–	6	53,965	–
110,600	462	702,001	1
12,991	38	44,074	–
76,131	102	92,118	–
116	6	76,750	–
571	3	43,560	–
2,593	13	14,240	–
3,051	39	7,667	–
9,005	64	60,620	–
4,734	15	45,021	–
62,983	200	36,428	–
6,519	19	10,559	–
–	1	5,000	–
588	159	99,730	–
615	–	–	–
–	–	–	–
–	–	–	–
–	–	–	–
–	–	–	–
–	–	–	4
–	–	–	28
–	–	–	1
			10
3,745,145	**11,288**	**9,518,438**	**128**

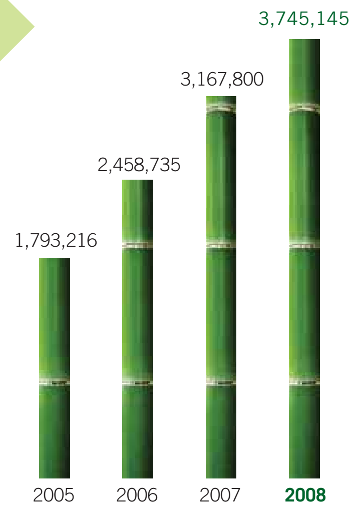
(3) The project in Xingcheng is operated by Huludao Xinao as a branch company. The operational data is included in Huludao.
(4) The project in Longnan is operated by Wenzhou Xinao. The operational data is included in Wenzhou.

operational and financial summary

Operational

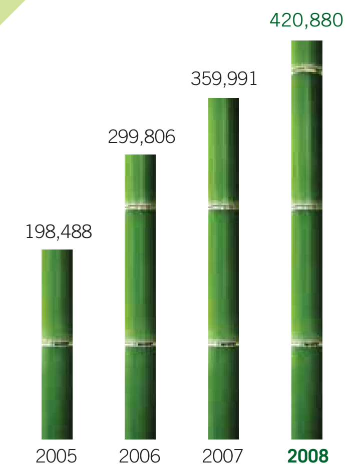
Accumulated Number of Piped Gas Connections Made to Residential Households

Number of households



Units of Piped Gas Sold to Residential Households

'000m³

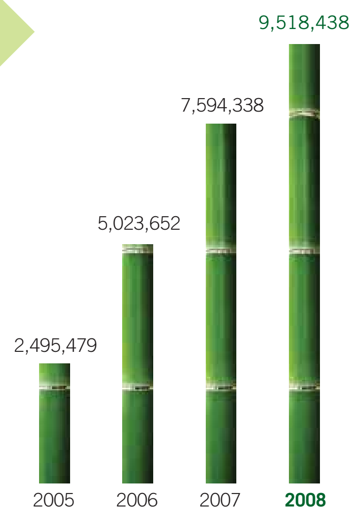


Length of Existing Intermediate Pipelines and Main Pipelines

km

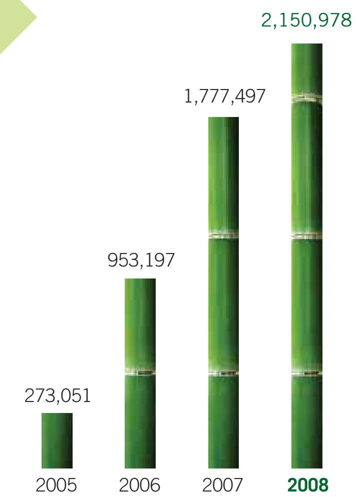
Accumulated Installed Designed Daily Capacity for Commercial/Industrial Customers

m³

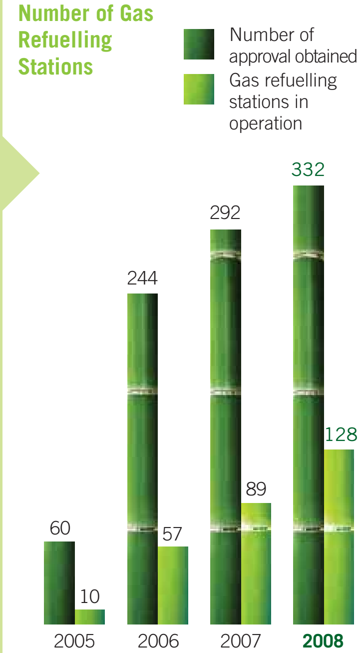


Units of Piped Gas Sold to Commercial/Industrial Customers

'000m³



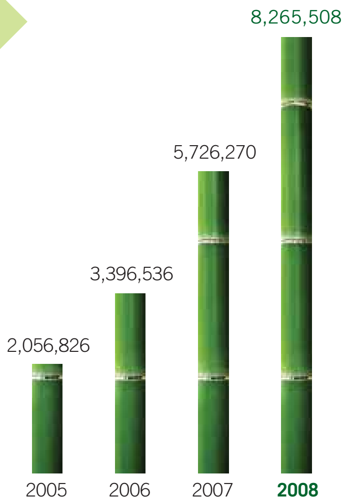
Number of Gas Refuelling Stations



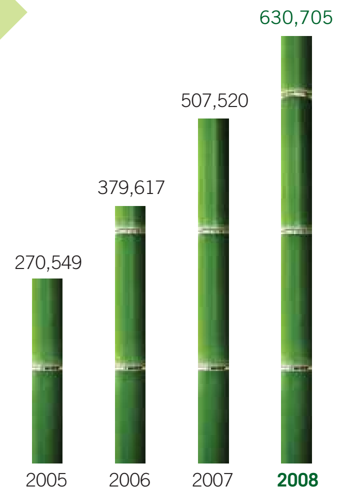
18 > comparison of ten-year results 20 > management discussion and analysis 30 > directors and senior management

Financial

Turnover
RMB'000



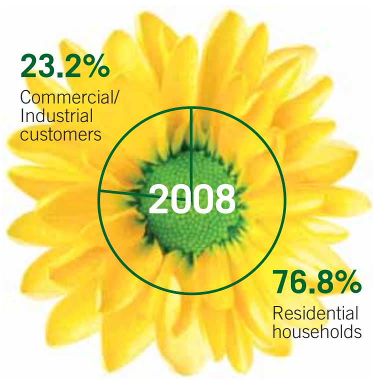
Profit Attributable to Shareholders
RMB'000

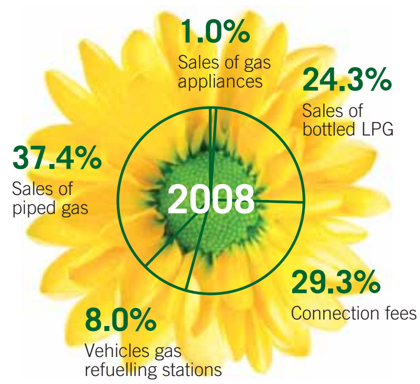


Turnover Breakdown by Customer

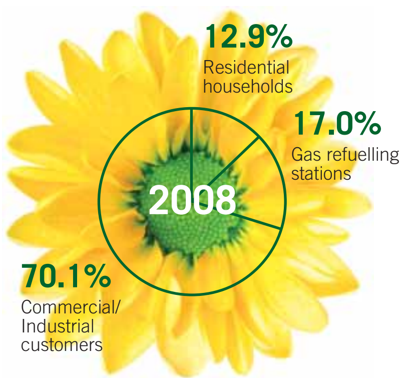
Turnover Breakdown by Segment

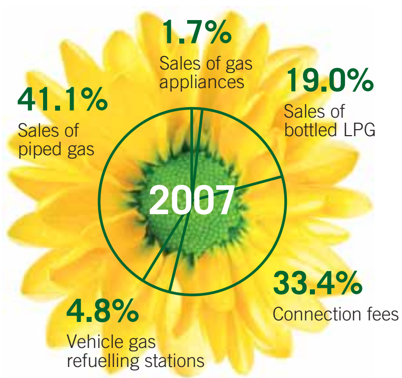
Connection Fees

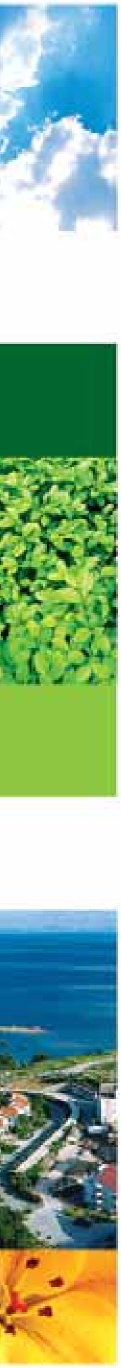




Sales of Piped Gas







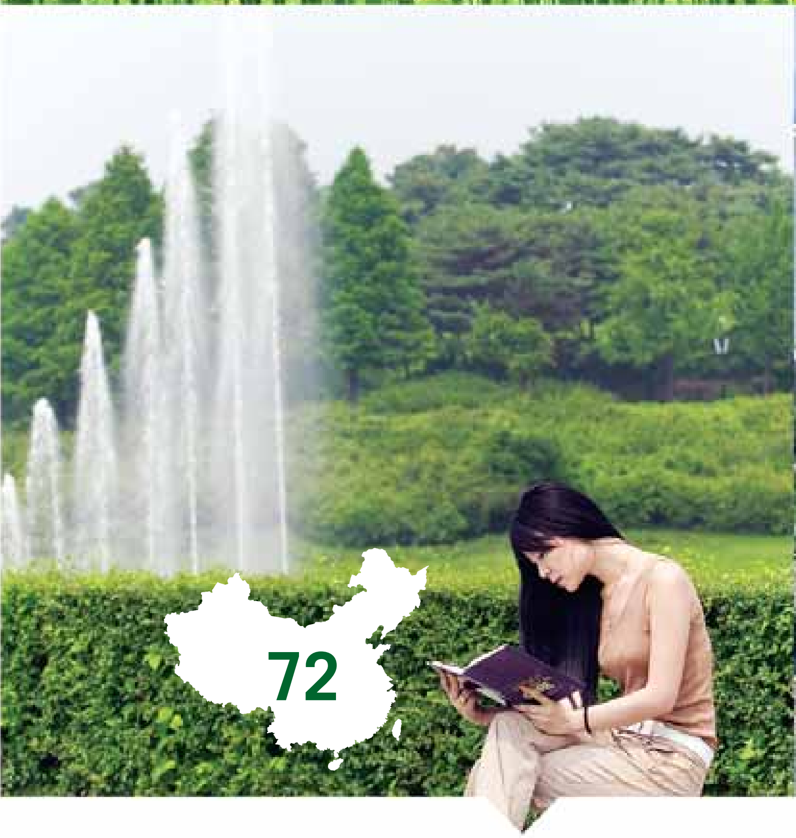
A GREEN SOCIETY.....

To establish a harmonious society and maintain sustainable economic development, the Chinese government strives to promote the use of clean energy with a special focus on the optimisation of its energy structure and energy conservation.

Q&A

WHAT ARE XINAO GAS'S COMPETITIVE ADVANTAGES IN THE CLEAN ENERGY MARKET?

- Excellent development strategy
- Innovative business model
- Diversified business scale
- Outstanding management team
- Secured accesses to gas source
- Caring customer service



As of 2008,
the Group is operating
gas projects in 72 cities

comparison of ten-year results

	2008	2007	2006 (Restated)	2005
Highlights (Group)				
Number of connected households				
(Piped Gas)	**3,745,145**	3,167,800	2,458,735	1,793,216
Installed designed daily capacity for commercial/industrial customers (m^3)				
(Piped Gas)	**9,518,438**	7,594,338	5,023,652	2,495,479
Units of piped gas sold				
Residential households (m^3)	**420,880,000**	359,991,000	299,806,000	198,488,000
Commercial/industrial customers (m^3)	**2,150,978,000**	1,777,497,000	1,027,939,000	273,051,000
Length of existing pipelines(1) (km)	**12,584**	11,301	9,234	7,268
Number of natural gas processing stations	**90**	83	74	64
Daily capacity of existing natural gas processing stations (m^3)	**14,378,000**	14,149,000	13,563,000	8,786,000
Turnover & Profit (RMB'000)				
Turnover	**8,265,508**	5,756,270	3,396,536	2,056,826
Profit before taxation	**1,130,679**	814,517	533,632	400,540
Taxation	**(259,955)**	(108,373)	(49,772)	(38,343)
Profit for the year	**870,724**	706,144	483,860	362,197
Minority interests	**(240,019)**	(198,624)	(104,243)	(91,648)
Profit attributable to equity holders of the Company	**630,705**	507,520	379,617	270,549
Dividends	**157,676**	126,880	75,923	45,440
Assets & Liabilities				
Non-current assets	**9,170,242**	8,176,070	6,329,211	4,390,976
Associate	**292,483**	386,111	340,173	76,571
Jointly controlled entities	**757,620**	483,672	295,530	235,432
Current assets	**4,276,996**	3,504,285	3,070,092	2,851,725
Current liabilities	**(5,428,280)**	(3,957,481)	(2,699,439)	(1,683,310)
Non-current liabilities	**(3,704,598)**	(3,931,999)	(3,467,139)	(3,112,245)
Net assets	**5,441,440**	4,660,658	3,868,428	2,759,149
Capital & Reserves				
Share capital	**106,318**	106,318	102,825	95,819
Reserves	**4,149,253**	3,629,229	2,953,835	2,135,667
Equity attributable to equity holders of the Company	**4,255,571**	3,735,547	3,056,660	2,231,486
Minority interests	**1,185,869**	925,111	811,768	527,663
	5,441,440	4,660,658	3,868,428	2,759,149
Earnings per share	**62.5 cents**	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

Industry Review

Energy consumption pattern in China

China is the world's second largest energy producing and energy consuming nation. Although the energy supply capacity has been on the rise, its main source of energy remains coal. According to the data disclosed in the 2008 statistics report issued by the National Bureau of Statistics, the total primary energy production in China during the year amounted to 2.6 billion tons standard coal, up 5.2% as compared to last year, of which the production capacity of raw coal amounted to 2.8 billion tons (up 4.1% over last year); crude oil amounted to 190 million tons (up 2.2% over last year); natural gas amounted to 76.1 billion cubic meters (up 9.9% over last year) and electric power amounted to 3,466.9 billion kWh (up 5.6% over last year). On the other hand, the total annual consumption of energy reached 2.9 billion tons standard coal, representing an increase of 4.0% as compared to last year. The consumption volume of coal for the year amounted to 2.7 billion tons (up 3.0% over last year); crude oil amounted to 360 million tons (up 5.1% over last year); natural gas amounted to 80.7 billion cubic meters (up 10.1% over last year) while that of electric power was 3,450.2 billion kWh, an increase of 5.6% as compared to last year. China's energy consumption per unit of gross domestic product in ten-thousand dollars decreased by 4.6%, showing that the effect of saving energy has been successfully achieved.

The current China environment cannot afford the pollution caused by the existing energy consumption structure. It is among one of the nations which tops the list in respect of the emission volume of carbon dioxide and sulphur dioxide. Electric power has accounted for a large proportion in the total energy consumption in China while the highest component in energy resources consumption goes to electric coal. The total amount of installed capacity for electric power equipment in China has reached nearly 800 million kilowatts, with a massive number of new equipments still under construction. The consumption of electric coal accounted for over 50% of the total production capacity of coal, while the emission of sulphur dioxide from coal-power generation plant also made up half of the total emission volume in China and is therefore regarded as one of the major causes for acid rain pollution. On the other hand, 20% of the total emission in the state came from smoke and dust, and the ashes thus produced accounted for 70% of its total volume. As a result, reducing ashes has become the key area of focus in energy saving, consumption reduction and reduction of emission pollutants. Energetic innovation and use of clean energy will play an effective role in solving this problem.

As one of the major types of clean energy specifically promoted by the Chinese government, natural gas has achieved robust growth in consumption in recent years. China's natural gas consumption volume increased from 24.5 billion cubic meters in 2000 to 80.7 billion cubic meters in 2008, representing an average compound growth rate of 16% per annum. It has been expressly regulated by the Chinese government that natural gas should be the main source of energy in urban gas utilisation and power generation.

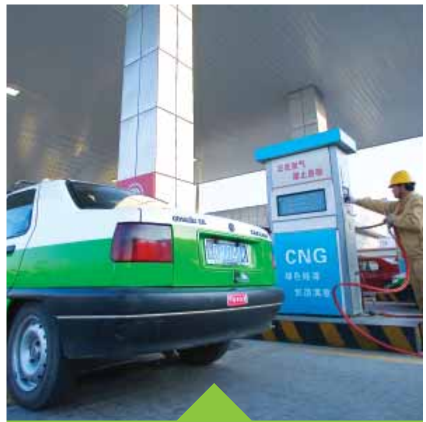
Prior to 2000, due to the constraints of gas pipelines, the natural gas consumption market in China was limited to the surrounding areas of oil gas fields, and the major usage of natural gas was for industrial fuels and chemical industries. In 2000, industrial fuels and chemical industries accounted for 78.3% of the state's total consumption of natural gas, urban gas accounted for 17.6% while gas-power generation accounted for 4.1%. According to the "Natural Gas Pipeline Network and the Eleventh Five Year Plan", following the completion and commencement of production of various long-distance pipelines, such as West-East Pipeline, Shaanxi-Beijing Pipeline II, Zhong-Wu Pipeline and Sebei-Xining-Lanzhou Pipeline, the total length of natural gas long distance pipelines in China is expected to reach 44,000 km with a demand for natural gas reaching 140.0 billion cubic meters in 2010. The major regions of natural gas consumption will shift to the coastal areas with robust economy rapidly and the consumption pattern of natural gas will also be changed

The Group's urban connectable population reached

41,644,000

During the year, piped gas sales volume reached

2.57 billion m^3



The number of gas refuelling stations owned by the Group is

128

Our outstanding business models have secured stable and sufficient cash flow and win absolute trust from banks and business partners, providing robust and continuous financial resources for the Group. We believe we are of sufficient financial strength to grasp any future business opportunity.

management discussion and analysis

changed consequently. It is expected that urban gas utilisation and power generation will account for 35% and 27% of the natural gas consumption respectively in 2020. The use of natural gas in industrial fuels and chemical industries will also be reduced gradually.

It is also expected that, in 2020, the urbanisation ratio in China will be increased to 55%-60% from the current level of 43%, and natural gas will gradually become the major fuel in the urban gas market, therefore providing tremendous potential for sustainable development for urban gas projects. At present, power generated by natural gas in China merely accounts for 2% of the total volume of power generated, and so the production and consumption of natural gas will continue to achieve robust growth in the future. A promising prospect is foreseeable for this business.

China's policies on city piped natural gas market

As the utilisation efficiency of energy resources gains higher attention from the Chinese government, more and more policies which encourage the use of energy resources and optimisation of energy structure has been promulgated.

With a view to promoting the development of circular economy, enhancing the utilisation efficiency of energy resources, protecting and improving the environment and achieving sustainable development, the Chinese government has, apart from the "Natural Gas Utilising Policy" announced previously which ensured the usage of urban gas, promulgated the "Circular Economy Promotion Law of the People's Republic of China" ("Circular Economy Promotion Law") in the 11th National People's Congress on 29 August 2008. The following is specifically regulated in the Circular Economy Promotion Law which comes into effect on 1 January 2009: "the state encourages and supports enterprises to use highly efficient and oil-saving products. Enterprises in such industries as electric power, oil processing, chemical industry, steel, non-ferrous metal and building materials etc. must replace fuel oil with clean energy, such as clean coal, petroleum coke, natural gas, etc. within the scope and time limit prescribed by the state, and must stop using fuel generator sets and oil boilers that fail to satisfy the relevant state provisions". Moreover, the Chinese government has announced ten measures during the year to further promote economic growth by means of boosting internal demand. Among these measures, the establishment of substantial energy projects and the increase in investment in the energy sector have been clearly listed as one of the important components, which include investments amounting to approximately RMB200 billion in petroleum and gas projects, RMB1,000 billion in environmental projects such as energy saving and emission reduction, as well as over RMB140 billion in West-East Pipeline II. The promulgation and implementation of such laws and policies have fully demonstrated the determination of the Chinese government to encourage the use of clean energy. It is believed that with the encouragement and support of the said government policies, the Group is well positioned to secure gas supply and attract new customers, whilst showing enormous potential for development in the natural gas industry.

Business Review

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

Gas connection

Since the Group adjusted its development strategies a few years ago 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 revenue of the Group.

As at 31 December 2008, the gas penetration rate for residential households of the Group has increased from 23.6% at the end of 2007 to 27.0%. With the continuous rapid growth in the number of users, the share of gas sales in the Group's overall revenue keeps rising while in the contrary, revenue attributable from one-off connection fee further dropped from 33.4% in 2007 to 29.3% of the overall revenue. The Group believes that this optimised revenue structure will secure the long-term stable revenue of the Group.

As at the end of 2008, the accumulated length of intermediate pipelines and main pipelines constructed by the Group was 12,584 km, and the number of existing natural gas processing stations reached 90. With a daily natural gas supply capacity of 14,377,650 cubic meters, the Group is able to meet the long term demand arising from existing natural gas projects.

Development of residential households

During the year, the Group provided natural gas connections for 710,035 residential households, up 22.2% as compared with the number of new connections recorded last year, achieving the original business target set for the whole year. In view of the impact of the macro-economy on the real estate industry, the Group has adjusted its development strategies in a timely manner. Taking advantage of the relatively low penetration rate of its gas projects, the Group devotes more efforts in new connection or conversion to piped natural gas for customers living in existing buildings, which eventually helps boosting the number of new connections for residential households to achieve the target set at the beginning of the year, and therefore maintaining a robust growth. As at the end of 2008, the aggregate number of piped natural gas residential households amounted to 3,600,387. If residential households of other types of piped gas were included, the total number of connected piped gas residential households reached 3,745,145. Supported by the increased number of new project cities as well as the level of urbanisation and organic growth in population coverage in its existing project cities, the population coverage of the Group has been extended to 41.6 million as at the year end. According to past experience in the industry and the Group, the gas penetration rate of residential households could reach over 80% in each city, as such there exists vast scope for future development in the residential households market. The continual and massive growth in the number of residential households each year fully demonstrated the Group's capability in raising the gas penetration rate of project cities. During the year, the average one-off connection fees collected by the Group from its residential households was RMB2,662.

As the Chinese government has paid more attention to environmental protection and more efforts in optimising the energy structure, factors that contributed to stimulate the stable yearly increase of gas penetration rate include the rising popularity of natural gas among local governments and consumers arising from the explicit advantages of natural gas comparing with other energy in terms of cleanliness, economic benefits, safety, convenience and environment impact; and the enhancement of auxiliary natural gas facilities of new and existing buildings driven by the year-on-year expansion of domestic long distance pipelines and the increasing security of gas sources.

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

During the year, the Chinese government has promulgated the Circular Economy Promotion Law which expressly stipulates that critical industrial customers with high energy consumption must abandon and replace the use of polluting energy (e.g. petroleum) with clean energy like natural gas. Coupled with the fact that the Chinese government has put much emphasis on the effect of energy saving and emission reduction and used this as a critical evaluation standard for local government, as an efficient and clean source of energy, natural gas will definitely gain more popularity and priority among consumers.

During the year, the Group provided natural gas connections for 2,548 new C/I customers (connected to gas appliances with a total installed designed daily capacity of 2,324,171 cubic meters), a slight increase as compared to new connections for the corresponding period last year. The average connection fee was RMB245 per cubic meter. As at the end of 2008, the Group has provided piped natural gas for 10,857 C/I customers (connected to gas appliances of a total installed designed daily capacity of 9,009,892 cubic meters). If the users of other types of piped gas were included, the Group has accumulated 11,288 C/I customers (connected to gas appliances with a total installed designed daily capacity of 9,518,438 cubic meters).

New Projects

During the year, the Group secured 4 new projects which were located in Zhaoqing City and Zengcheng City in Guangdong Province, Haiyan County in Zhejiang Province and Quangang District in Quanzhou City of Fujian Province respectively, thus increasing the number of gas project cities to 72. The connectable population also grew to 41,644,000 (approximately 13,881,000 households). Projects secured this year were located in areas with a higher level of industrial and commercial development and this will increase the future gas sales of the Group. Among these new projects, Zhaoqing

China plans to implement active financial and monetary policies and increase its investment in the construction of infrastructure. More energy infrastructure projects are set to commence in coming future.
These projects will definitely increase the proportion of clean energy utilisation in the country's overall energy structure and are favourable for the Group's long-term development.

City and Zengcheng City in Guangdong Province have a relatively larger scale of gas consumption while Haiyan County enjoys the most well-developed economy in Eastern China with active industrial and commercial activities. The geographical advantage of Quangang District being located next to the Group's existing project Quanzhou can fully fortify the economies of scale of these projects and thus further enlarging the energy distribution network of the Group.

Sales of piped gas

During the year, the Group's total sales volume of piped gas was 2,571,858,048 cubic meters, up 20.3% when compared with last year, and the share of piped gas sold to residential households, C/I customers and vehicle customers amounted to 16.4%, 70.6% and 13.0% respectively, representing an increase of 16.9%, 13.8% and 84.7% as compared with last year. Since the Group adjusted its development strategy and focused on increasing the gas penetration rate in the past few years, the sales volume of piped gas has been increasing continuously. Gas sales has become the major source of revenue of the Group, attributable to the total revenue generated by the Group rising to 69.8% for the year. This entirely demonstrated that the Group has now possessed a more stable and long-term revenue base, and further reduced its reliance on one-off connection fees and improved and optimised its revenue structure. As the Group continues to spare no effort in boosting penetration rate, providing connection for C/I customers and attracting new vehicle customers, it is expected that the share of revenue from gas sales attributable to the total revenue of the Group will further increase and such development will deliver long-term and stable cash flow to the Group.

Vehicle gas refuelling station

During the year, the Group continues to regard vehicle gas refuelling business as one of its core businesses. The number of vehicle gas refuelling stations newly completed and commenced operation was 39, adding to a total of 128 vehicle gas refuelling stations located in 38 cities of the state, among which 7 were not gas project cities of the Group. In addition, as at the end of 2008, the number of vehicle refuelling stations which have obtained construction approval from the local governments has accumulated to 332. In 2008, the Group has completed the conversion of 7,136 taxis and 819 buses into natural gas vehicles, an increase of 40.0% and 37.9% as compared to last year respectively, adding to a total number of 17,976 taxis and 1,340 buses using natural gas. This contributes to the increase in the proportion of vehicle gas sales in the total volume of gas sales from 8.5% last year to 13.0%.

As the Chinese government puts more emphasis on the optimisation and adjustment of energy structure and environmental protection, and takes more stringent stance on the implementation of energy saving and emission reduction policies, the use of clean energy by vehicle has become a growing trend. In addition, the overwhelming economic benefits of clean energy such as natural gas and dimethyl ether ("DME") as compared to vehicle-used gasoline and diesel has given immense momentum to the growth of the promising refuelling station business which has delivered significant contribution to both environmental protection and the Group's profitability.

In 2007, the Group has successfully developed and launched the world's first vehicle-used DME refuelling station in business operation in Shanghai. Thereafter, we have received the engagement from the Shanghai government to participate in the World Expo 2010 which will be held in Shanghai, using the vehicle with zero emission within the exhibition area. As the only supplier to provide zero emission vehicle for this project, it is a strong evidence of the Chinese government's recognition to the Group's ability in the development and usage of clean energy.

Gas source

Following the robust development of the natural gas industry in China, the relevant infrastructure has been further improved. During the year, the construction of domestic new long distance pipelines has attained smooth progress, with the west wing of the West-East Pipeline II completed and the east wing under construction as planned. According to the schedule of the government, the West-East Pipeline II will formally be put into operation by the end of 2011. Other massive energy projects, such as Sichuan-East Pipeline, were also in good progress. Moreover, the construction of liquefied natural gas ("LNG") terminals in coastal areas has been completed and were put into operation one by one. The successful construction and operation of these projects can further satisfy the growing demand for natural gas in China. According to the "Natural Gas Pipeline Network and the Eleventh Five Year Plan" issued by the Chinese government, in 2010, the construction of the national natural gas pipeline network will be basically completed and thus the use of piped natural gas in more projects of the Group can be further guaranteed given the stable piped natural gas supply in the long run. Generally speaking, all piped natural gas projects of the Group have entered into guaranteed contract for gas supply with their upstream suppliers, including the take-or-pay contracts for West-East Pipeline, Zhong-Wu Pipeline and LNG terminals. With such stable source of gas, the Group is therefore able to attract new customers.

Besides fully utilising such extensive gas pipeline network and LNG terminals, the Group has also endeavored to search for other alternative energy. The coal chemical project located in Inner Mongolia invested by the Group has progressed smoothly during the year and is expected to launch next year to produce coal-based clean energy such as methanol and DME.

Apart from the existing LNG processing plants in Beihai, the Group has invested in another two LNG plants in Yinchuan, Ningxia Province and Jincheng, Shanxi Province respectively. After production of these projects commence in 2009, the gas sources of the Group will be further strengthened. The Group also possesses a massive non-pipeline transportation system (including LNG and CNG transportation trucks) with a one-off maximum transportation capacity of over 5.5 million cubic meters. Coupled with this strength, the Group will be able to secure more stable gas supply and hence enjoy a higher degree of protection on gas sources.

During the year, the LPG imported and exported by the Group amounted to 20,000 tons and 3,621 tons respectively. Besides fostering the development of the Group's energy trading business, such move has also fully demonstrated our capability in securing energy resources through international energy 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 households 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.

Some of the Group's project companies have been cooperating 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, in order to provide more convenient and economic payment methods for customers, the Group has established and implemented an easy payment program in some of the group companies on a trial basis. The program aims at providing more convenient payment methods for customers whilst saving huge administrative costs for the Company at the same time by setting up fee collection system in various convenience stores and supermarkets located near the residential districts.

Sales of bottled LPG

During the year, the Group sold 599,567 tons of LPG (2007: 225,156 tons), increased by 1.6 times over last year.

The Group has been devoting its efforts in innovating LPG distribution models since 2007, rewarding result of which includes the establishment of a SAAS platform with central call center playing a major role. Such platform could effectively consolidate the upstream purchasing activities, midstream manufacturing and storage activities and downstream wholesaling and distribution activities into one platform, thus increasing our efficiency and minimising our operating costs simultaneously.

Sales of gas appliances

Besides 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 has established its own production line of 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 revenue for the Group.

Gross and net profit margins

During the year, the Group's overall gross and net profit margins were 27.2% and 10.5% respectively, representing decrease of 10.6% and 14.1% as compared with last year.

The drops of gross and net profit margins were mainly attributable to the continuous changes of our revenue 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 revenue is continuously switching from one-off connection fee to long-term piped gas sales. The connection fee share in the total revenue has decreased from 33.4% in last year to 29.3% whereas the gas sales share in the total revenue has further increased from 64.9% last year to 69.7%. 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 gas penetration rate of its existing projects while maintaining its rapid growth momentum. Another major reason for the decrease of net profit margin is the increase in effective tax rate of the Group from 14.5% last year to 22.1% 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 and sales expenses.

Advanced Safety Operation Management System

During the year, the Group continued to maintain a good record of safe operation and insisted on placing safe operation as its top priority. We have set up a health, safety and environmental management system last year which have been launched in all group companies during the year. Meanwhile, a great deal of efforts have also been put in promoting the "3-No Campaign" (no accidents, no personal injuries and no harmful acts to the environment) and executing various controlling measures, with an aim to setting a role model in the industry for running a standardised and modern management system of safe operation.

In 2008, the Group has continued its unremitting effort in holding professional trainings and qualification recognition programs in the gas professional training centre set up by the Group in cooperation with Utilise Training & Development Solutions Limited, a company in UK. The objective of such trainings and programs is to consistently enhance the professional qualification and expertise of the employees with reference to the safe operation standard in the UK gas industry, thereby

management discussion and analysis

improving the quality of our services to customers. By offering training and qualification programs ranging from Levels 1 to 4, the center has nurtured a large number of high caliber talents and thus helped enhance the operational safety level and efficiency. During the year, the training center conducted 7 sessions of training courses, with 126 employees passed in various qualifications examinations. The total number of technicians and operators who have been awarded with qualifications have reached 1,926.

Excellent Management

During the year, the Group continued to carry out informatisation program in full swing with most of the group companies implementing the Enterprise Resource Planning ("ERP") system and our customer caring and services system going online. These systems ensure more efficient and accurate operational and management information to be delivered to the management and thereby optimising the effectiveness of the management's decision. In order to ensure the efficient transmission and the thorough and effective implementation of the Group's strategies, we have successfully promoted and implemented the strategic performance management project in all group companies during the year, and finished the refinement on the personal balanced scorecard system according to the actual situations in the Group. With such systems in place, every employee of the Group completes their work through strategies and this realises the smooth transition from strategic planning to execution and from organisation level to individual level. It also guarantees speedy conveying and effective implementation of strategies. During the year, the Group was awarded "Star Organisation of Strategy Execution in China 2008" by the China affiliate of the Balanced Scorecard Institute.

During the year, our annual report was awarded "Silver, Annual Reports: Energy" by the Annual International Galaxy Awards. We also received the honor of "Gold, Overall Annual Report: Gas Distribution, Transportation and Transmission" from the International ARC Awards. These remarkable achievements fully evidenced the accurate and clear disclosure of information in our annual reports and our efficient communication with our shareholders.

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 and government authorities in the cities it operated for its quality customer service, and a number of project companies have again obtained awards like "Units with High Consumer Satisfaction" from the local consumer councils during the year.

On the other hand, taking the chance of informatisation being promoted throughout the whole Group, we have successfully consolidated the customer caring system, the customer relations management system and the central call center into one platform. With the consolidated system, customers are able to send their service requests to the Company via phone, email, fax and internet etc. according to their own habits and preferences. Coupled with the advanced global positioning system, the customer not only enjoy great convenience but also the most speedy and efficient services. The system will also record the completion details of the service requests for future review and improvement. Under the new system, different modules including customer caring, home visits, customer experience and customers management will be solidified in the work flow and put under central management, thus enhancing the customer's experience and realising a truly customer-oriented management system designed to satisfy market needs.

All the project companies of the Group are 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' worries on potential safety problems, and thus increase their confidence in our services.

Human Resources

The Group always regards its staff as its most important assets. We believe that consistently maintaining employees' passion and enthusiasm is the only key for moving forward, and that staff could provide satisfying service to customers only if they are offered the opportunity of healthy development. It is also the deep faith of the Group that talents are the source of its competitiveness and the critical factor for success and future development. The Group has always attached importance to recruitment and internal training and also provided newly recruited staff with induction training, learning opportunity as well as heart-warming care in daily lives. All these measures enable new staff to master the business operation of the company and gain a deeper understanding of the Company's culture.

During the year, the Group has launched a capability enhancement program in cooperation with two consultancy and management companies. This new program aims at establishing a capability-based human resources system in line with the Group's strategies which will continuously enhance the capability of staff and provide necessary support for the organisation, thereby ensuring that the targets of the Group can be achieved. The content of this program include development of capability enhancement system, establishment of capability standards, talent test and development, trainings and qualification programs hosted by internal instructors, as well as trainings and developing programs for senior management.

As at 31 December 2008, the Group had 15,776 employees (2007: 14,800 employees), of which 11 were based in Hong Kong and the others were based in China. 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 2008, the Group's cash on hand was equivalent to RMB1,725,358,000 (31 December 2007: RMB1,693,459,000), and its total debts was equivalent to RMB5,403,140,000 (31 December 2007: RMB5,054,324,000). Its net gearing ratio, i.e. the ratio of net debt to equity (including minority interests), was 67.6% (31 December 2007: 72.1%).

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, all being 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 2008, XGII and Mr. Wang together held 33.38% 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. All bondholders have exercised the conversion right in May 2007 and convert the CBs into ordinary shares of HK$0.10 each of the Company. The conversion price for each ordinary share at the issue date of the CBs was HK$5.4375. 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 at the issue time) 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.

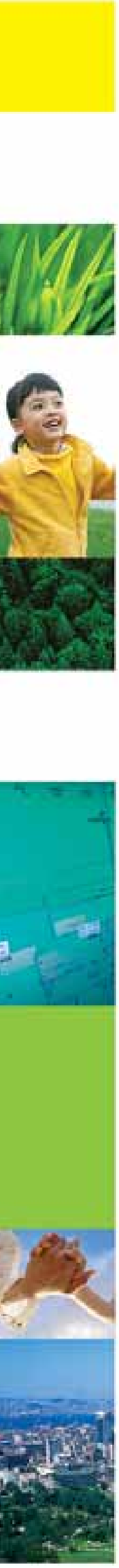
As all the operations of the Group are in China, if the appreciation of RMB would continue in the future, the Group will benefit from earning RMB and repaying foreign currency debts, and the costs for foreign currency debt will be lowered indirectly.

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

Borrowings structure

As at 31 December 2008, the Group's total debts amounted to RMB5,403,140,000 (31 December 2007: RMB5,054,324,000), including loans and bonds of US$205,000,000 (equivalent to RMB1,381,101,000) and loans of HK$142,633,000 (equivalent to RMB125,786,000). Apart from the US$200,000,000 bonds and RMB600,000,000 short-term debenture which bear interest at fixed coupons, other US dollar loans and HK dollar 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 bank and other loans amount equivalent to RMB1,888,631,000 that are secured by assets with an carrying amount equivalent to RMB197,049,000, all of the other loans are unsecured. Short-term loans amounted equivalent to RMB1,239,450,000 while the remaining were long-term loans falling due after one year or above. Details of capital commitments and financial guarantee liability are set out in Notes 44 and 37 to the Financial Statements respectively.

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



A GREEN FUTURE......

**According to the "Eleventh Five-Year Plan",
the Chinese government targets at reducing the energy consumption
per GDP unit by 20% in 2010 over 2005.**

As at the end of 2008, 11 cities have entered into "Memorandum of Understanding for Energy Conservation and Emission Reduction" with XinAo Gas.

WHAT IS THE DEVELOPMENT STRATEGY OF XINAO'S "ENERGY SERVICE"

The Group provides tailor-made energy service to individual customers by its excellent technology and talent and contributes to the establishment of a green, environmental-friendly society by the provision of clean energy and the promotion of energy conservation.

Q&A

directors and senior management

1	2	
3	4	5
6	7	8

1 WANG Yusuo
2 CHEN Jiacheng
3 YU Jianchao
4 ZHAO Jinfeng
5 CHEUNG Yip Sang
6 CHENG Chak Ngok
7 ZHAI Xiaoqin
8 LIANG Zhiwei

REFINED STRATEGIC PLANNING AND OUTSTANDING MANAGEMENT IS OUR KEY TO SUCCESS.

Executive Directors

Mr. WANG Yusuo, aged 45, 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 22 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. He has won various awards, including Outstanding Entrepreneurs in China and Hebei's Top 10 Outstanding Young Persons . Mr. Wang is the spouse of Ms. Zhao Baoju and the brother-in-law of Mr. Zhao Jinfeng. Mr. Wang is a director and a controlling shareholder of Xinao Group International Investment Limited ("XGII"), which is a controlling shareholder of the Company. He was also previously the chairman and an executive director of Enric Energy Equipment Holdings Limited, a Hong Kong listed company, but had resigned from such positions with effect from 15 October 2007. Mr. Wang and Ms. Zhao Baoju jointly control various investment holding companies.

Mr. CHEN Jiacheng, aged 46, is an Executive Director and the Chief Executive Officer of the Company. Mr. Chen joined the Group in 2002 and is responsible for executing the Group's overall strategies, decision-making on important affairs and the execution thereof, and ensuring the safety of the Group's projects. He was awarded a bachelor's degree in engineering from Northwest Industrial University in 1983 and a master's degree in business administration from Tsinghua University in 1999. Mr. Chen has over 18 years of experience in corporate governance and has extensive exposure in modern corporate management.

Mr. ZHAO Jinfeng, aged 41, is an Executive Director of the Company responsible for coordinating the Group's investment in PRC projects. He graduated from the Township and Village Enterprise Cadre College of the Ministry of Agriculture and received an executive master's degree in business administration from the Sino-Europe International Business School in 2006. Prior to joining the Group in 1993, Mr. Zhao worked at Langfang City Electrical Company responsible for resources management. Mr. Zhao has over 16 years of experience in the PRC gas industry. Mr. Zhao is the brother of Ms. Zhao Baoju and the brother-in-law of Mr. Wang Yusuo.

Mr. YU Jianchao, aged 40, 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 the Sino-Europe International Business School in 2005. Prior to joining the Group, he worked as the chief accountant for a number of foreign enterprises, including GSK (Langfang) Co., Ltd. and Nissin Foods Co., Ltd. Mr. Yu has over 20 years of experience in accounting and financial management. Mr. Yu is a director and president of XGII, which is a controlling shareholder of the Company. He was also previously an executive director of Enric Energy Equipment Holdings Limited, a Hong Kong listed company, but had resigned from such position with effect from 15 October 2007.

directors and senior management

Mr. CHEUNG Yip Sang, aged 42, is an Executive Director and the General Manager of the Company responsible for finalising the strategies of the board, managing gas projects and further integrating the investment in the domestic gas markets. Mr. Cheung joined the Group in 1998. He graduated from The Chinese People's Armed Police Force Academy in 1990 and received an executive master's degree in business administration from the Peking University in 2006. Mr. Cheung has extensive experience in corporate governance and the market integration in the public utilities sector. He also has wide exposure in the research and development of the gas industry.

Mr. CHENG Chak Ngok, aged 38, 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 the Hong Kong Institute of Certified Public Accountants, and the associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in England. Mr. Cheng has over 16 years of experience in accounting, financial management and corporate finance. Mr. Cheng is the vice president and financial controller of XGII, which is a controlling shareholder of the Company.

Mr. LIANG Zhiwei, aged 45, is an Executive Director and the Director of Strategic Performance Management of the Company responsible for the management and execution of the Company's internal strategies and performance appraisal. He graduated from the 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 administration in the Sino-Europe International Business School. Prior to joining the Group in 1999, Mr. Liang had worked for the China Exploration and Engineering Bureau for 15 years. Mr. Liang is experienced in the competition of and governmental control on city piped gas, pricing mechanism research and enterprise's internal strategic performance management.

Ms. ZHAI Xiaoqin, aged 40, is an Executive Director and the Chairman of the Supervisory Committee of the Company responsible for monitoring audit process and carrying out risk management. She graduated from the School of Economic and Management of the Tsinghua University in 1996 and received a master's degree in business administration from the Beijing Institute of Technology in 2001. She is now studying the executive master's degree in business administration in the Sino-Europe International Business School. Prior to joining the Group in 1996, Ms. Zhai had been serving in Nantong Yifanda Computer Company Limited as the Sales Director. Ms. Zhai has accumulated more than 12 years' experience in strategic management, risk management and corporate governance.

Independent Non-executive Directors

Ms. ZHAO Baoju, aged 43, is a co-founder and a Non-Executive Director of the Company. She has over 16 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 control various investment holding companies.

Mr. JIN Yongsheng, aged 45, is a Non-Executive Director of the Company. He graduated from the Tianjin University of Finance and Economics in 1986, specializing in finance. 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, and has obtained an executive master's degree in business administration from the Peking University in 2005. Mr. Jin is a qualified practicing lawyer in the PRC and has over 19 years of experience in legal practice. Mr. Jin is a director of XGII, which is a controlling shareholder of the Company. He is also the chief executive officer and an executive director of Enric Energy Equipment Holdings Limited, a Hong Kong listed company, since 5 June 2006.

Independent Non-executive Director

Mr. WANG Guangtian, aged 45, is an Independent Non-Executive Director appointed by the Company in 2001. He holds a master's degree in world economics from the Hebei University and has over 26 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 38, 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 (BScHons). Ms. Yien is a holder of the Chartered Financial Analyst designation and an ordinary member of the Hong Kong Securities Institute. She has extensive experience in the areas of corporate finance, investment, mergers and acquisitions.

Mr. KONG Chung Kau, aged 39, is an Independent Non-Executive Director appointed by the Company in 2005. He is currently a sole proprietor of C.K. Kong & Co. Certified Public Accountants. Mr. Kong is a Certified Public Accountant holding practicing certificate, a fellow member of the Association of Chartered Certified Accountants in England and the Hong Kong Institute of Certified Public Accountants. Mr. Kong has extensive experience in auditing, tax planning and finance.

Senior Management

Mr. LIU Yongxin, aged 46, is the Executive Deputy General Manager of the Company and the General Manager of Liquefied Petroleum Gas Clean Energy Development Company Limited mainly responsible for the development, operation and management of the liquefied petroleum gas business. He graduated from the Chang'an University in 1987 and obtained a master's degree in Finance from the Massey University in New Zealand in 1999. Prior to joining the Group in 2008, he worked at Exxon Mobil and BP holding various important positions in the marketing, operation and business development departments. Mr. Liu has accumulated over 16 years' experience in marketing, operation and corporate governance in the energy sector.

Mr. HAN Jishen, aged 44, is the Deputy General Manager of the Company and the General Manager in Hunan, Guangxi and Yunan areas, responsible for assisting the Chief Executive Officer and the General Manager in expanding the market and the operation and management of projects. He joined the Group in 1993 and was graduated from Baoding Staff University in 1990 and obtained an executive master's degree in business administration from the Nanyang Technological University in Singapore in 2007. He has over 16 years of experience in the gas fuel industry in the PRC.

Mr. WANG Dongzhi, aged 40, is the Deputy General Manager of the Company. Mr. Wang graduated in 1991 with a bachelor's degree in engineering management from the Beijing Chemical University. Mr. Wang obtained a bachelor's degree in economics in 1996, the qualifications of Certified Accountant in the PRC in 2000 and a master's degree in business management from the Tianjin University in 2003. Before joining the Group in 2000, Mr. Wang was in charge of the finance department of a Sino-foreign joint venture company. He has extensive experience in treasury and cost control. Mr. Wang was the former Chief Accountant and was appointed as the Deputy General Manager of the Company in January 2009.

Mr. ZHOU Liqun, aged 44, is the Deputy General Manger of the Company and the General Manager in Guangzhou, Fujian and Jiangxi areas responsible for managing gas projects. Mr. Zhou holds a Qualification Certification of Senior Engineer and is now studying for an executive's degree in business administration from the Sino-Europe International Business School. Prior to joining the Group in 2003, he worked at a chemical fertilizer factory and a liquefied gas plant in Yancheng City. He had also held the positions of general manager and senior engineer in Yancheng Lianfu Petroleum-Chemistry Limited. Mr. Zhou has accumulated more than 26 years of experience in the energy sector.

Mr. XUE Zhi, aged 43, is the Deputy General Manger and the Chief Engineer of the Company responsible for the management of engineering technology and quality, and energy services support. Mr. Xue graduated from the Chongqing Jianzhu University with a bachelor's degree in engineering, majoring in urban gas. He is now studying for an executive's degree in business administration from the Nanyang Technological University in Singapore. Prior to joining the Group in 2003, Mr. Xue worked at the Central and Southern China Municipal Engineering Design and Research Institute, and had also held the position of Deputy Manager in a gas company in Zhuzhou. Mr. Xue possesses over 24 years' experience in the gas industry and has extensive exposure in the management of gas engineering and innovation of engineering technology.

directors' report

The Directors have pleasure in submitting to shareholders their annual report and the audited financial statements for the year ended 31 December 2008.

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 2008 are set out in the Consolidated Income Statement on page 72.

The Directors recommend the payment of a final dividend of HK$17.71 cents (equivalent to approximately RMB15.62 cents) per share to the shareholders on the register of members on 26 May 2009. The total dividend amount is approximately RMB157,676,000, and the retention of the remaining profit for the year is approximately RMB473,029,000.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB1,367,578,000 has been incurred in acquiring property, plant and equipment.

During the year, the Group revaluated its properties, resulting in a revaluation surplus amounting to RMB15,137,000, of which RMB5,492,000 has been debited to the property revaluation reserve and RMB9,645,000 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

Details of movements during the year in the share capital of the Company are set out in Note 38 to the Financial Statements.

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 75-76.

BANK AND OTHER LOANS

Details of bank and other loans of the Group are set out in Note 35 to the Financial Statements.

CHARITABLE DONATIONS

Charitable donations by the Group for 2008 amounted to RMB11,363,000.

DIRECTORS' EMOLUMENTS

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

DIRECTORS

The Directors of the Company as at the date of this report are:

Executive Directors:

Wang Yusuo (Chairman)
Chen Jiacheng (Chief Executive Officer)
Zhao Jinfeng
Yu Jianchao
Cheung Yip Sang
Cheng Chak Ngok
Liang Zhiwei (appointed on 18 November 2008)
Zhai Xiaoqin (appointed on 18 November 2008)

Non-executive Director:

Zhao Baoju
Jin Yongsheng

Independent non-executive Directors:

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

In accordance with Articles 99 and 116 of the Company's Articles of Association, Messrs Wang Yusuo, Zhao Jinfeng, Yu Jianchao, Cheng Chak Ngok, Liang Zhiwei and Zhai Xiaoqin retire and, being eligible, offer themselves for re-election.

As of 31 December 2008, 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.

directors' report

DISCLOSURE OF INTERESTS

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

As at 31 December 2008, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

Name of Director	Capacity	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 Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	3,752,000 (Note 2)	333,275,000 (Note 1)	–	337,027,000	–	337,027,000	33.38%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	–	333,275,000 (Note 1)	3,752,000 (Note 2)	337,027,000	–	337,027,000	33.38%
Mr. Chen Jiacheng	Beneficial owner	–	–	–	–	4,550,000	4,550,000	0.45%
Mr. Zhao Jinfeng	Beneficial owner	–	–	–	–	4,550,000	4,550,000	0.45%
Mr. Yu Jianchao	Beneficial owner	–	–	–	–	4,550,000	4,550,000	0.45%
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 2008, 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 2008	Number of options exercised during the year	Number of shares subject to outstanding options as at 31 December 2008 (Aggregate)	Approximate percentage of the Company's total issued share capital (Aggregate)
Mr. Yang Yu	15.03.2006	16.09.2006 – 15.03.2016	6.650	1,400,000	–	4,900,000	0.49%
(Note 2)	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	1,300,000	–	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	1,300,000	–	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	1,300,000	–	4,550,000	0.45%
(Note 2)	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	1,300,000	–	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	1,140,000	–	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	160,000	–	560,000	0.06%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	400,000	–		
Total				27,650,000	–	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. Such grantees resigned from directorship of the Company with effect from 18 November 2008.

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.

directors' report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of shareholder	Capacity	Personal interests	Interests in shares Corporate interests	Family interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares (Note 4)	Approximate percentage of the Company's total issued share capital
Mr. Wang	Beneficial owner and interest of controlled corporation	3,752,000 (Note 2)	333,275,000 (Note 1)	–	337,027,000	–	337,027,000(L)	33.38%
Ms. Zhao	Interest of spouse and interest of controlled corporation	–	333,275,000 (Note 1)	3,752,000 (Note 2)	337,027,000	–	337,027,000(L)	33.38%
XGII	Beneficial owner	–	333,275,000 (Note 1)	–	333,275,000	–	333,275,000(L)	33.01%
Penta Investment Advisers Ltd.	Investment manager	–	131,533,768 (Note 3)	–	131,533,768	–	131,533,768(L)	13.03%
Mr. John Zwaanstra	Interest of controlled Corporation	–	131,533,768 (Note 3)	–	131,533,768	–	131,533,768(L)	13.03%
Capital Research and Management Company	Investment manager	–	92,619,000	–	92,619,000	–	92,619,000(L)	9.17%
JPMorgan Chase & Co.	Beneficial owner, Investment manager and custodian corporation/ approved lending agent	–	111,444,087	–	111,444,087	–	111,444,087(L) (including 88,013,031(P))	11.04%
Commonwealth Bank of Australia	Interest of controlled corporation	–	70,980,000	–	70,980,000	–	70,980,000(L)	7.03%

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 131,533,768 shares relate to the same block of shares. Such shares are held by Penta Investment Advisers Ltd., which is 100% beneficially 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 2008, 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 2008, 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 42 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 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2008	Number of options exercised during the year	Number of shares subject to outstanding options as at 31 December 2008	Approximate percentage of the Company's total issued share capital
Directors	15.03.2006	16.09.2006 – 15.03.2016	6.650	7,900,000 (Note 2)	–	27,650,000	2.74%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	19,750,000 (Note 3)	–		
Employees	15.03.2006	16.09.2006 – 15.03.2016	6.650	3,640,000	–	12,740,000	1.26%
	15.03.2006	16.03.2008 – 15.03.2016	6.650	9,100,000	–		
Total				40,390,000	–	40,390,000	4.00%

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. Of which 1,400,000 shares were held by Mr. Yang Yu and 1,300,000 shares were held by Mr. Qiao Limin, both of whom resigned from directorship of the Company with effect from 18 November 2008.
3. Of which 3,500,000 shares were held by Mr. Yang Yu and 3,250,000 shares were held by Mr. Qiao Limin, both of whom resigned from directorship of the Company with effect from 18 November 2008.

No share option was lapsed or cancelled during the year.

directors' report

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 25 January 2008, 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 (Note 1)	Service accept party	Contract date	Contract period	Property	Contract sum (RMB)
(i) Xinao Group Elephant Club Hotel Company Limited	Langfang Xinao Gas Company Limited	1.4.2005	3 years	Gas processing station in Langfang city	75,000
(ii) Elephant Club	Xinao Gas Development Company Limited	1.3.2007	1 year	Office building in Langfang city	60,000
(iii) Elephant Club	Langfang Xinao Gas Equipement Company Limited	1.4.2007	1 year	Office building in Langfang city	85,000
(iv) Langfang Xinao Property Management Company Limited	Langfang Xinao Gas Company Limited	1.1.2008	1 year	Office building in Langfang city	230,000
(v) Elephant Club	• Xinao Energy Logistics Limited • Beijing Xinao Huading Trading Company Limited • Xinao Energy Trading Limited	1.1.2008	1 year	Office building in Langfang city	900,000
(vi) Elephant Club	Langfang Xinao Gas Company Limited	1.1.2008	3 years	Office building in Langfang city	1,400,000
(vii) Elephant Club	Xinao Gas Development Company Limited	1.1.2008	3 years	Office building in Langfang city	570,000
(viii) Elephant Club	Xinao (China) Gas Development Company Limited	1.3.2008	10 months	Office building in Langfang city	370,000
(ix) Langfang Elephant Club Property Management Company Limited ("Elephant Club")	Langfang Xinao Gas Equipment Company Limited	1.4.2008	2.75 years	Office building in Langfang city	256,000
(x) Elephant Club	Xinao Gas Development Company Limited	1.4.2008	2.75 years	Gas processing station in Langfang city	315,000
(xi) Elephant Club	Xinao (China) Gas Development Company Limited	1.10.2008	1.25 years	Office building in Langfang city	100,000
(xii) Bengbu Xinao Property Company Limited	Bengbu Xinao Gas Company Limited	–	–	Office building in Bengbu city	28,000
					4,389,000

(B) On 25 January 2008, 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)	1.1.2008	3 years	Office building in Langfang city	1,475,000 (including RMB436,000 management fee)
(ii) Xinao Group Company Limited (note 1)	Xinao Gas Development Company Limited	1.1.2008	3 years	Office building in Langfang city	2,596,000
					4,071,000

(C) On 25 January 2008, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies has agreed to provide the Group with supporting services, including but not limited to employees training, catering services, information technology support and maintenance, legal and administrative services.

Supporting Services

Service provide party (Note 1)	**Service accept party**	**Contract date**	**Services**	**Contract sum** (RMB)
• Langfang Tongcheng Vehicle Services Company Limited • Xinao Group Elephant Club Hotel Company Limited • Xinao Petroleum Refuelling Station of Langfang City Gas Company Limited • Elephant Club • Langfang Xinao Property Management Company Limited • Xinao Group Company Limited	Subsidiaries under Xinao Gas Holdings Limited	2008	• Transportation services • Hotel services • Vehicle gasoline refueling station • Catering services • Repair and maintenance services • Cultural services • Provision of expert	20,117,000

directors' report

(D) On 25 January 2008, the Group and the Wang Family Companies entered into an agreement, whereby the Group has agreed to purchase dimethyl ether ("DME") manufactured and/or sold by Xinneng Energy (together with its subsidiaries and associates) ("Xinneng Group").

Purchase of DME

Seller (Note 1)	**Buyer**	**Contract date**	**Products**	**Contract sum** (RMB)
• Xinneng (Bengbu) Energy Company Limited • Xinneng (Zhangjiagang) Energy Company Limited • Shanghai Xinao Energy Company Limited	• Bengbu Xinao Gas Development Company Limited • Xinao Energy Trading Company Limited • Huaian Xinao Gas Development Company Limited • Bengbu Xinao Clean Energy Development Company Limited • Zhanjiang Xinao Gas Company Limited	2008	DME	288,210,000

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.

EXEMPTED CONNECTED TRANSACTIONS

(A) Gas Connection Service

Service provide party	**Service accept party**	**Service**	**Contract sum** (RMB)
(i) Xinao Gas Development Company Limited	Langfang Xinao Property Development Company Limited (note 1)	Gas connection for residential and commercial/industrial ("C/I") customers	2,050,000
(ii) Xinao Gas Development Company Limited	Xinao Group Elephant Club Hotel Company Limited (note 1)	Gas connection for C/I customers	117,000
(iii) Bengbu Xinao Gas Company Limited	Bengbu City Investment Holding Company Limited (note 2)	Gas connection for residential customers	334,000
(iv) Bengbu Xinao Gas Company Limited	Bengbu Xinao Property Company Limited (note 1)	Gas connection for residential customers	3,000
(v) Shijiazhuang Xinao Gas Company Limited	Shijiazhuang Gas Group Company Limited (note 2)	Heating engineering	1,212,000
			3,716,000

(B) Construction Service

Service provide party	Service accept party	Service	Contract sum (RMB)
Shantou City Chenghai Gas Construction Company Limited (note 2)	Shantou Xinao Gas Company Limited	Construction of pipeline	1,788,000

(C) Loan Advance

Lending party	Borrowing party	Contract date	Contract Period	Contract sum (RMB)
(i) Shantou Xinao Gas Company Limited	Shantou Special Economic Zone Chemical Petroleum Gas Company (note 2)	1.1.2008	1 year	275,000
(ii) Zhanjiang Xinao Gas Company Limited	Zhanjiang Gas Group Company Limited (note 2)	22.07.2008	–	1,000,000
(iii) Nanning Xinao Clean Energy Company Limited	Guangxi Huashang Energy Chemical Company Limited (note 2)	20.12.2008	1 year	1,500,000
				2,775,000

(D) Property Leasing Service

Service provide party (Note 2)	Service accept party	Contract date	Contract period	Property	Contract sum (RMB)
(i) Haining City Mintai Coal Gas Company Limited	Haining Xinao Gas Company Limited	1.4.2007 1.4.2008	1 year 1 year	Office building in Haining City	145,000
(ii) Changsha City Gas Industry Company Limited	Changsha Xinao Gas Company Limited	1.1.2008	1 year	Office building, street store and warehouse in Changsha City	1,049,000
(iii) Haining City Wantong Gas Company Limited	Haining Xinao Gas Company Limited	–	–	Canteen and land parcel in Haining City	50,000
					1,244,000

(E) Land Leasing

Lessor	Lessee	Contract date	Contract period	Property	Contract sum (RMB)
Sinopec Group Shijiazhuang Petroleum Company Limited (note 2)	Shijiazhuang Xinao Vehicle Gas Company Limited	1.1.2008	1 year	Land parcel on which gas refueling station is located	3,520,000

directors' report

(F) Transportation Service

Service provide party	Service accept party	Service	Contract sum (RMB)
Tongliao City Rixin Natural Gas Company Limited (note 2)	Xinao Energy Logistics Limited	Transportation of energy	901,000

(G) Decoration Service

Service provide party	Service accept party	Service	Contract sum (RMB)
Beijing Xinao Guangxia Property Development Company Limited (note 1)	Beijing Xinao Gas Company Limited	Decoration of office building	3,500,000

(H) Donation

Donar	Donee	Transaction	Contract sum (RMB)
Subsidiaries under Xinao Gas Holdings Limited	Xinao Charity Fund (note 3)	Donation	4,880,000

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 organisation, 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 50 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 the details of share options disclosed in Note 42 to the Financial Statements, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2008.

MAJOR CUSTOMERS AND SUPPLIERS

Both the percentage of the purchases attributable from the Group's five largest suppliers and the percentage of the turnover attributable from the Group's five largest customers were less than 30% during the year.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control (including financial control, operational control, compliance control and risk management function) 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 2008. Three Audit Committee meetings were held during the financial year.

REMUNERATION COMMITTEE

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

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 A.1.3 and E.1.2. In order to best accommodate the available time slots of all Directors, the third and forth regular board meeting of the Company during the year were held less than 14 days after respective notice was given. All directors were able to attend the third and forth regular board meeting. On the other hand, the chairman of the Board was unable to attend the annual general meeting of the Company held on 27 May 2008 due to business trip, and neither the Chairman nor member of the Audit Committee was able to attend the said meeting due to unexpected business commitments. Alternatively, Mr. Yang Yu, the chief executive officer of the Company at that time, and Mr. Cheng Chak Ngok, the executive Director and qualified accountant of the Company attended the said annual general meeting. Details of compliance are set out in the Corporate Governance Report on pages 47 to 70 of the Annual Report.

directors' report

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

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, 8 April 2009

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"
- Year 2008 "Gold, Overall Annual Report: Gas Distribution, Transportation and Transmission"

Annual International Galaxy Awards

- Year 2008 "Silver, Annual Reports: Energy"

corporate governance 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 A.1.3 and 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 in 2007. 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 has been further promoted and implemented in 16 subsidiaries. The Group will continue to promote this model gradually and it is expected that the model will be further promoted and implemented in 20 more subsidiaries in 2009.

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 2008, 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 2008, a total of 7 Board meetings (including four regular Board meetings) were held. Details of Directors' attendance record of Board meetings and Board Committees meetings in 2008 are as follows:

Board meeting

Director	*Attendance*	
Mr. Wang Yusuo	6/7	(4/4)*
Mr. Yang Yu (resigned on 18 November 2008)	6/6	(3/3)*
Mr. Chen Jiacheng	4/7	(3/4)*
Mr. Zhao Jinfeng	6/7	(4/4)*
Mr. Qiao Limin (resigned on 18 November 2008)	5/6	(3/3)*
Mr. Yu Jianchao	7/7	(4/4)*
Mr. Cheung Yip Sang	6/7	(4/4)*
Mr. Cheng Chak Ngok	7/7	(4/4)*
Ms. Zhao Baoju	6/7	(4/4)*
Mr. Jin Yongsheng	6/7	(4/4)*
Mr. Wang Guangtian	6/7	(4/4)*
Ms. Yien Yu Yu, Catherine	7/7	(4/4)*
Mr. Kong Chung Kau	7/7	(4/4)*
Mr. Liang Zhiwei (appointed on 18 November 2008)	1/1	(1/1)*
Ms. Zhai Xiaoqin (appointed on 18 November 2008)	1/1	(1/1)*

* *regular Board meetings*

Audit Committee meeting

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

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

corporate governance report

Compliance of the Code on Corporate Governance Practices *(continued)*

A.1 The Board (continued)

Code Provisions	Compliance	Details of Compliance
• Opportunity to all directors to include matters in the agenda for regular board meetings.	Yes	• Directors are consulted as to items to be included and items which the Directors may wish to include in the agenda for regular Board meetings before the finalised version of the relevant agenda is despatched to the Directors.
• At least 14 days notice given to all directors prior to a regular board meeting to ensure that opportunity to attend is given.	No	• Notice of a regular Board meeting is normally given to all Directors not less than 14 days prior to such meeting. However, to best accommodate the available time slots of all Directors, the third and forth regular board meeting during the year were held less than 14 days after respective notice was given. All directors were able to attend the third and forth regular board 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 hereinabove.

corporate governance report

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. Chen Jiacheng, 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. Chen Jiacheng 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 Board 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.

corporate governance report

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 2008, the Board members were as follows:

Mr. Wang Yusuo	(Chairman and Executive Director)
Mr. Chen Jiacheng	(CEO and Executive Director)
Mr. Zhao Jinfeng	(Executive Director)
Mr. Yu Jianchao	(Executive Director)
Mr. Cheung Yip Sang	(Executive Director)
Mr. Cheng Chak Ngok	(Executive Director)
Mr. Liang Zhiwei	(Executive Director)
Ms. Zhai Xiaoqin	(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 30 to 33 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 2008, 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 2007 and the interim results of the Group for the 6 months period ended 30 June 2008;
3. considered and approved the change of CEO and change in directorships of the Company;
4. reviewed the effectiveness of the system of internal control and risk management of the Group;
5. reviewed general mandates to issue and repurchase shares of the Company; and
6. 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.

corporate governance report

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.	Yes	• The Company has adopted written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealing in securities of the Company.

corporate governance report

Compliance of the Code on Corporate Governance Practices *(continued)*

A.5 Responsibilities of directors (continued)

Code Provisions	Compliance	Details of Compliance
• Directors should participate in a programme of continuous professional development.	Yes	• In 2008, the Company organised 12 internal training programmes and seminars for the Directors and the senior management on various matters relating to corporate development strategy, innovative management, leadership, project management, staff development and energy saving and emission reduction. 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.

corporate governance report

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

The Remuneration Committee is primarily responsible for the following duties:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;
2. to have the delegated responsibilities to determine the specific 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.

corporate governance report

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 independent association as "Gold, Overall Annual Report".

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 2008.

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. On the other hand, active risk management model has been promoted and implemented in subsidiaries of the Group. Such model encourages the subsidiaries to identify and assess risks actively in order to achieve effective control over these risks. • The Group has 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. • The Company has designed a customised balanced score card for each of its subsidiaries after taken into account the resources and customer nature of that subsidiary. As such, the achievement of major business targets and financial indicators in each subsidiary will be monitored monthly. The progress on the implementation of operational measures which have significant impact on its profitability will also be assessed. In case any problem arises, new operational policies will be formulated in a timely manner. • The risk management team will evaluate the operational risks of the enterprises and formulate action plans for managing significant risks. • Reports on each subsidiary of the Group will be produced for consideration. • The designated team will monitor the performance of those subsidiaries with low assessment results and will give advice on measures to be taken by such subsidiaries. • During the year under review, some internal control weaknesses have been found and corrected. There have not been any significant problems relating to the internal control aspects of the Group.

corporate governance report

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 3 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 and interim review, the supply of non-audit services and the remuneration of the auditors. Attendance record of the Audit Committee members is set out in Section A.1 above.

Auditors' remuneration

For the year ended 31 December 2008, 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 2008	
• Audit fee paid – Interim review	RMB797,000
• Audit fee payable – Annual audit (subject to final agreement with the auditors)	RMB3,850,000
Non-audit services for the year 2008	
• Fee paid for provision of cost management services of the Group and other miscellaneous services	RMB5,134,000

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.

corporate governance report

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. Audit Committee; and

2. Remuneration Committee.

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

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.

corporate governance report

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 2008 due to business trip. Alternatively, Mr. Yang Yu, the CEO at that time, attended the said annual general meeting. • The Chairman of the Remuneration Committee attended the said annual general meeting in 2008. However, due to expected business commitments, neither the Chairman nor members of the Audit Committee was able to attend the said annual general meeting. Alternatively, Mr. Cheng Chak Ngok, the executive Director and qualified accountant of the Company was arranged to attend and answer questions at the said annual general meeting.
• 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 2008, an extraordinary general meeting was held for approving a continuing connected transaction that is subject to independent shareholders' approval. • The Chairman of the independent board committee attended the said extraordinary general meeting to answer questions.

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 and extraordinary 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 of the financial year ended 31 December 2008, an annual general meeting of the Company will be held on 26 May 2009 and it is currently expected that interim results for the six months ended 30 June 2009 will be announced in September 2009. Notice of the forthcoming annual general meeting will be dispatched to shareholders at least 20 clear business days before the meeting.

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

corporate governance report

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 4 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 72 to 164, which comprise the consolidated balance sheet as at 31 December 2008, 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 2008 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

8 April 2009

consolidated income statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue	7	**8,265,508**	5,756,270
Cost of sales		**(6,018,967)**	(4,006,271)
Gross profit		**2,246,541**	1,749,999
Other income	8	**213,882**	231,049
Selling expenses		**(130,723)**	(83,729)
Administrative expenses		**(1,029,032)**	(855,127)
Gain (loss) on disposal of property, plant and equipment		**10,880**	(33,517)
Share of results of associates		**7,347**	(6,501)
Share of results of jointly controlled entities		**192,828**	113,015
Finance costs	9	**(381,044)**	(281,173)
Fair value changes on derivative financial instruments		**–**	46,012
Impairment loss on property, plant and equipment	15	**–**	(11,535)
Impairment loss on goodwill	18	**–**	(50,606)
Fair value changes on convertible bonds		**–**	(3,370)
Profit before taxation	10	**1,130,679**	814,517
Taxation	12	**(259,955)**	(108,373)
Profit for the year		**870,724**	706,144
Attributable to:			
Equity holders of the Company		**630,705**	507,520
Minority interests		**240,019**	198,624
		870,724	706,144
Dividends	13		
– paid		**119,136**	77,274
– Proposed		**157,676**	126,880
Earnings per share	14		
– Basic		**62.5 cents**	51.3 cents
– Diluted		**61.4 cents**	50.3 cents

75 > consolidated statement of changes in equity 77 > consolidated cash flow statements 79 > notes to the financial statement

consolidated balance sheet

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	15	**7,855,387**	6,760,741
Prepaid lease payments	16	**472,228**	432,479
Investment properties	17	**63,005**	94,450
Goodwill	18	**168,926**	153,630
Intangible assets	19	**464,712**	469,504
Interests in associates	20	**292,483**	386,111
Interests in jointly controlled entities	21	**757,620**	483,672
Available-for-sale financial assets	22	**13,956**	13,733
Loan receivable	23	**12,000**	–
Amount due from an associate	24	**–**	138,000
Amount due from a jointly controlled entity	25	**20,000**	89,000
Deposits paid for investments in joint ventures		**96,228**	24,133
Deposits paid for acquisition of property, plant and equipment and land use rights		**3,800**	400
		10,220,345	9,045,853
Current assets			
Inventories	26	**254,060**	235,356
Trade and other receivables	27	**1,431,087**	1,069,957
Prepaid lease payments	16	**9,354**	9,026
Amounts due from customers for contract work	28	**495,318**	335,910
Amounts due from associates	24	**17,630**	48,585
Amounts due from jointly controlled entities	25	**207,350**	68,719
Amounts due from related companies	29	**57,022**	43,273
Restricted bank deposits	30	**79,817**	–
Cash and cash equivalents	31	**1,725,358**	1,693,459
		4,276,996	3,504,285
Non-current assets classified as held for sale	32	**76,977**	–
		4,353,973	3,504,285
Current liabilities			
Trade and other payables	33	**2,752,280**	2,205,060
Amounts due to customers for contract work	28	**465,606**	305,644
Amounts due to associates	24	**46,502**	116,411
Amounts due to jointly controlled entities	25	**102,884**	30,234
Amounts due to related companies	34	**35,507**	29,779
Taxation payable		**75,932**	35,846
Bank and other loans – due within one year	35	**1,239,450**	834,779
Short-term debenture	36	**630,043**	398,375
Financial guarantee liability	37	**4,384**	1,353
Deferred income – current portion	41	**692**	–
		5,353,280	3,957,481
Liability associated with assets classified as held for sale	32	**75,000**	–
		5,428,280	3,957,481
Net current liabilities		**(1,074,307)**	(453,196)
Total assets less current liabilities		**9,146,038**	8,592,657

consolidated balance sheet

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Capital and reserves			
Share capital	38	**106,318**	106,318
Reserves		**4,149,253**	3,629,229
Equity attributable to equity holders of the Company		**4,255,571**	3,735,547
Minority interests		**1,185,869**	925,111
Total equity		**5,441,440**	4,660,658
Non-current liabilities			
Bank and other loans – due after one year	35	**2,186,720**	2,387,513
Guaranteed notes	39	**1,346,927**	1,433,657
Deferred taxation	40	**150,873**	110,829
Deferred income – non-current portion	41	**20,078**	–
		3,704,598	3,931,999
		9,146,038	8,592,657

The consolidated financial statements on pages 72 to 164 were approved and authorised for issue by the Board of Directors on 8 April 2009 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 2008

	Attributable to equity holders of the Company										
	Share capital RMB'000 (Note 38)	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 2007	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 net deficit arising on revaluation of buildings	–	–	–	–	–	428	–	–	428	–	428
Share of net valuation deficit on buildings 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
Issue of shares on conversion of convertible bonds	1,638	125,600	–	–	–	–	–	–	127,238	–	127,238
Issue of shares on exercise of share options (Note 42)	1,855	138,963	–	(24,946)	–	–	–	–	115,872	–	115,872
Recognition of equity settled share based payment (Note 42)	–	–	–	21,454	–	–	–	–	21,454	–	21,454
Acquisition of business (Note 43(b)(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 interest in a subsidiary (note a)	–	–	(19,541)	–	–	–	–	–	(19,541)	(8,017)	(27,558)
Dividend appropriation	–	–	–	–	–	–	–	(77,274)	(77,274)	–	(77,274)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(100,113)	(100,113)
Transfer to statutory surplus reserve fund	–	–	–	–	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

consolidated statement of changes in equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company										
	Share capital RMB'000 (Note 38)	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
Net surplus arising on revaluation of buildings	–	–	–	–	–	5,492	–	–	5,492	–	5,492
Deferred taxation asset on net surplus arising on revaluation of buildings	–	–	–	–	–	(692)	–	–	(692)	–	(692)
Share of net valuation surplus on buildings by minority shareholders	–	–	–	–	–	(675)	–	–	(675)	675	–
Net income recognised directly in equity	–	–	–	–	–	4,125	–	–	4,125	675	4,800
Profit for the year	–	–	–	–	–	–	–	630,705	630,705	240,019	870,724
Total recognised income and expenses for the year	–	–	–	–	–	4,125	–	630,705	634,830	240,694	875,524
Recognition of equity settled share based payment (Note 42)	–	–	–	4,330	–	–	–	–	4,330	–	4,330
Acquisition of businesses (Note 43(a))	–	–	–	–	–	–	–	–	–	20,257	20,257
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	129,307	129,307
Deemed acquisition of additional interests in a subsidiary (note d)	–	–	–	–	–	–	–	–	–	(1,294)	(1,294)
Dividend appropriation	–	–	–	–	–	–	–	(119,136)	(119,136)	–	(119,136)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(128,206)	(128,206)
Transfer to statutory surplus reserve fund	–	–	–	–	68,797	–	–	(68,797)	–	–	–
At 31 December 2008	106,318	1,893,039	(18,374)	58,208	226,688	28,813	–	1,960,879	4,255,571	1,185,869	5,441,440

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 ended 31 December 2007, a subsidiary of the Company has acquired 20% interest in another existing subsidiary of the Company, 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 subsidiary of the Company, amounting to approximately RMB19,541,000 was recognised in the special reserve in accordance with the accounting policy as set out in Note 4.

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 subsidiaries of the Company established under PRC Companies Law amounted to RMB68,797,000 (2007: RMB74,628,000).

c. During the year ended 31 December 2007, 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 新奧(中國)燃氣投資有限公司 ("新奧(中國)燃氣投資"), which is a wholly-owned subsidiary of the Company and the minority shareholder respectively. The fair value of assets distributed approximated to the carrying value immediately before the distribution. The assets distributed to 新奧(中國)燃氣投資 was injected as capital to a newly established jointly controlled entity.

d. During the year ended 31 December 2008, 石家庄新奧燃氣有限公司, a 60% owned subsidiary of the Company, disposed of its 65% equity interest held in its subsidiary, 石家莊新奧車用燃氣有限公司 to a wholly-owned subsidiary of the Company, 新奧燃氣發展有限公司. Upon the completion of the transaction, the effective interest in 石家庄新奧車用燃氣有限公司 held by the Group increased from 39% to 65% and gain on deemed acquisition of additional interest in a subsidiary amounting to RMB1,294,000 was recognised in the consolidated income statement for year ended 31 December 2008.

consolidated cash flow statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Operating activities			
Profit before taxation		**1,130,679**	814,517
Adjustments for:			
Share of results of associates		**(7,347)**	6,501
Share of results of jointly controlled entities		**(192,828)**	(113,015)
Fair value changes on derivative financial instruments		**–**	(46,012)
Gain on deemed acquisition of additional interest in a subsidiary		**(1,294)**	–
Discount on acquisition of a subsidiary	43(a)(ii)	**(663)**	–
Fair value change on convertible bonds		**–**	3,370
Exchange gain of guaranteed notes		**(94,000)**	(97,684)
Impairment of goodwill		**–**	50,606
Impairment of available-for-sale financial assets		**18**	107
Impairment of property, plant and equipment		**–**	11,535
(Gain) loss on disposal of property, plant and equipment		**(10,880)**	33,517
Loss on disposal of investment properties		**–**	162
Gain on disposal of prepaid lease payment		**(5,648)**	(2,475)
Gain on disposal of available-for-sale financial assets		**–**	(5,465)
Decrease (increase) in fair value of investment properties		**13,022**	(14,381)
Share-based payment expenses		**4,330**	21,454
Research and development expenses		**12,919**	1,449
Revaluation (surplus) deficit of property, plant and equipment		**(9,645)**	8,733
Depreciation of property, plant and equipment		**276,356**	225,027
Impairment of trade and other receivables		**38,081**	91,606
Trade and other receivables recovered		**(53,015)**	(13,476)
Amortisation of intangible assets		**27,543**	12,019
Release of prepaid lease payments		**8,966**	6,800
Financial guarantee income		**(1,696)**	(1,582)
Interest income		**(30,265)**	(52,789)
Interest expenses		**381,044**	281,173
Operating cash flows before movements in working capital		**1,485,677**	1,221,697
Increase in inventories		**(6,458)**	(49,682)
Increase in trade and other receivables		**(258,900)**	(319,826)
Increase in amounts due from customers for contract work		**(159,408)**	(24,667)
Decrease in amounts due from associates		**168,955**	18,973
Increase in amounts due from jointly controlled entities		**(69,631)**	(22,464)
(Increase) decrease in amounts due from related companies		**(13,749)**	58,511
Increase in trade and other payables		**356,455**	420,370
Increase in amounts due to customers for contract work		**159,962**	25,742
Increase in amounts due to jointly controlled entities		**72,650**	13,750
(Decrease) increase in amounts due to associates		**(69,909)**	60,091
Increase in amounts due to related companies		**5,728**	11,747
Increase in deferred income		**20,770**	–
Cash generated from operating activities		**1,692,142**	1,414,242
Interest received		**30,265**	52,789
Interest paid		**(271,867)**	(199,157)
PRC enterprise income tax paid		**(185,704)**	(108,719)
Net cash from operating activities		**1,264,836**	1,159,155

consolidated cash flow statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Investing activities			
Dividend received from jointly controlled entities		**82,458**	47,492
Dividend received from associates		**1,981**	1,134
Purchase of property, plant and equipment		**(1,186,068)**	(1,647,965)
Purchase of investment property		**–**	(16,684)
Deposit paid for acquisition of operation rights		**(1,000)**	–
Deposit paid for acquisition of prepaid lease payment		**(2,800)**	–
Deposit received for disposal of an associate		**75,000**	–
Increase in prepaid lease payments		**(65,249)**	(35,769)
Acquisition of subsidiaries and businesses	43	**(36,788)**	(166,150)
Acquisition of additional interest in a subsidiary		**–**	(27,801)
(Increase) decrease in deposits paid for investments in joint ventures		**(72,095)**	30,592
Investments in jointly controlled entities		**(150,886)**	(122,459)
Investments in associates		**(18,000)**	(63,099)
Acquisition of intangible asset		**(2,000)**	(19,120)
Proceeds from disposal of property, plant and equipment		**41,016**	67,931
Proceeds from disposal of investment properties		**–**	7,338
Proceeds from disposal of prepaid lease payment		**26,865**	4,930
Proceeds from disposal of available-for-sale investments		**–**	10,489
Research and development expenses		**(12,919)**	(1,449)
Increase in restricted bank deposits		**(79,817)**	–
Increase in loan receivable		**(15,000)**	–
Net cash used in investing activities		**(1,415,302)**	(1,930,590)
Financing activities			
Interest paid on guaranteed notes		**(103,478)**	(113,686)
Proceeds from shares issued on exercise of share options		**–**	115,872
Proceed from issuance of short-term debenture		**600,000**	398,375
Repayment of short-term debenture		**(400,000)**	–
Contribution from minority shareholders		**129,307**	4,611
Dividends paid to minority shareholders		**(128,206)**	(100,113)
Dividends paid to shareholders		**(119,136)**	(77,274)
New bank loans raised		**1,677,408**	1,367,202
Repayment of bank loans		**(1,473,530)**	(622,645)
Amounts advanced to an associate		**–**	(55,000)
Amounts advanced to a jointly controlled entity		**–**	(20,000)
Net cash from financing activities		**182,365**	897,342
Net increase in cash and cash equivalents		**31,899**	125,907
Cash and cash equivalents at beginning of the year		**1,693,459**	1,567,552
Cash and cash equivalents at end of the year		**1,725,358**	1,693,459
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		**1,725,358**	1,693,459

notes to the financial statements

For the year ended 31 December 2008

1. GENERAL

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

The consolidated financial statements are presented in Renminbi, which is 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 51.

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 RMB1,074,307,000 as at 31 December 2008. Having considered the secured credit facilities of approximately RMB1,271,640,000 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 AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

notes to the financial statements

For the year ended 31 December 2008

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

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instrusments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual period beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2009

3 Effective for annual periods beginning on or after 1 July 2009

4 Effective for annual periods ending on or after 30 June 2009

5 Effective for annual periods beginning on or after 1 July 2008

6 Effective for annual periods beginning on or after 1 October 2008

7 Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The Directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial positions 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.

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.

Business combination achieved in stages

When a business combination involves more than one exchange transaction, each exchange transaction is treated separately by the Group, using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. Any adjustment to those fair values relating to previously held interests of the Group is credited to the revaluation reserve.

Before qualifying as a business combination, a transaction qualified as an investment in an associate was accounted for in accordance with HKAS 28 *"Investments in Associates"* using the equity method.

The fair values of the investee's identifiable net assets at the date of each earlier exchange transaction have been previously determined throughout the application of equity method.

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.

notes to the financial statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, expect when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"). 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 associates, less any identified impairment loss. When the Group's share of losses of an associate equal or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Where 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operation of another 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 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 (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on the acquisition of a business 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 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.

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 an jointly controlled entity is described under 'Interests in associates' and 'Interests in jointly controlled entities' above.

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

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

Interest in associate is classified as held for sale when the sale is highly probable. The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting up to the date when the associate meets held for sale classification.

notes to the financial statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases except for those that are classified and accounted for as investment properties under the fair value model.

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 in the consolidated income statement 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Equity-settled share-based payment transactions

Share options granted to employees

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

At each balance sheet date, the Group 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.

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 year, and it further excludes 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 difference, 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.

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

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.

notes to the financial statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Research and development expenditure (continued)

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

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

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

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

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.

When a gas connection contract include gas supply component, revenue is recognised on a straight-line basis over the life of the connection service and gas supply period. The unearned portion of the gas connection income received is stated as deferred income in the consolidated balance sheet.

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.

notes to the financial statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid 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 loan receivable, trade and other receivable, amounts due from customers for contract work, amounts due from associates, amounts due from jointly controlled entities, amounts due from related companies, restricted bank deposits 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, loan and 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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

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 and other 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.

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.

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.

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.

notes to the financial statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity (continued)

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to associates, amounts due to jointly controlled entities, amounts due to related companies, bank and other loans, short-term 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 contract at the higher of: (i) the amount determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "*Revenue*".

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 paid and payable 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 2008 amounted to RMB168,926,000 (2007: RMB153,630,000). 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 2008, the carrying amount of trade and other receivable after deducting the impairment recognised is RMB748,192,000 (2007: RMB700,451,000). Details of movement in impairment on trade and other receivables are set out in Note 27.

notes to the financial statements

For the year ended 31 December 2008

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 debt (borrowings disclosed in Notes 35, 36 and 39, 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:

	2008 RMB'000	2007 RMB'000
Bank and other loans	**3,426,170**	3,222,292
Short-term debenture	**630,043**	398,375
Guaranteed notes	**1,346,927**	1,433,657
	5,403,140	5,054,324
Less: Cash and cash equivalents	**1,725,358**	1,693,459
Net debt	**3,677,782**	3,360,865
Total equity	**5,441,440**	4,660,658
	2008 %	2007 %
Net debt to total equity ratio	**68**	72

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

b. Financial risk management objectives and policies

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:

	2008 RMB'000	2007 RMB'000
Financial assets		
Available-for-sale financial assets	**13,956**	13,733
Loans and receivables	**3,526,823**	3,145,726
Financial liabilities		
Financial liabilities stated at amortised cost	**6,936,987**	6,552,913
Financial guarantee liability	**4,384**	1,353

The Group's major financial instruments include loan receivable, trade and other receivables, amount due from/to associates, jointly controlled entities and related companies, bank balances, restricted bank deposits, trade and other payables, bank and other loans, short-term debenture, guaranteed notes and financial guarantee liability. 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.

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

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

Currency risk

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

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

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

	Assets		Liabilities	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Foreign currency:				
United States Dollar ("USD")	**849**	2,956	**1,381,101**	1,543,226
Hong Kong Dollar ("HKD")	**1,254**	120,356	**125,786**	18,370

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	
	2008	2007	**2008**	2007
	%	%	**%**	%
Possible change in exchange rate	**5**	5	**5**	5

	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
(Decrease) increase in profit for the year:				
– if RMB weakens against foreign currencies	**(68,449)**	(75,206)	**(6,227)**	5,100
– if RMB strengthens against foreign currencies	**68,449**	75,206	**6,227**	(5,100)

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 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 24, 25, 35, 36 and 39 for details of these loans, debenture and notes respectively).

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

notes to the financial statements

For the year ended 31 December 2008

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 loan receivable and bank loans (see Note 23 and Note 35 for details of these amounts).

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

	2008 **RMB'000**	2007 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	**(7,981)**	(7,012)
– as a result of decrease in interest rate	**7,981**	7,012

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

Price risk

The Group was not exposed to equity price risk. Its investment in unlisted equity securities with carrying value of RMB13,956,000 (2007: RMB13,733,000) which was classified as available-for-sale investment but are stated at cost less accumulated impairment. Accordingly, sensitivity analysis for price risk is not presented.

Credit risk

As at 31 December 2008, 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 37.

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 is limited because the counterparties are reputational international and PRC banks with high credit-ratings assigned by international credit-rating agencies.

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

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for all trade receivables at 31 December 2007 and 2008.

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 2008, the Group has available unutilised short-term bank loan facilities of approximately RMB2,043,000,000 (2007: RMB737,455,000).

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 year RMB'000	Within the forth year RMB'000	Within the fifth year RMB'000	Over five years RMB'000	Adjustments RMB'000	Carrying amount at balance sheet date RMB'000
At 31 December 2008									
Trade and other payables		**1,347,884**	**1,100**	**10**	**–**	**–**	**–**	**–**	**1,348,994**
Amounts due to associates		**46,502**	**–**	**–**	**–**	**–**	**–**	**–**	**46,502**
Amounts due to jointly controlled entities		**102,844**	**–**	**–**	**–**	**–**	**–**	**–**	**102,844**
Amounts due to related companies		**35,507**	**–**	**–**	**–**	**–**	**–**	**–**	**35,507**
Bank and other loans	**5.6**	**1,424,106**	**187,350**	**245,737**	**286,593**	**309,146**	**1,698,601**	**(725,363)**	**3,426,170**
Short-term debenture	**5.95**	**630,043**	**–**	**–**	**–**	**–**	**–**	**–**	**630,043**
Guaranteed notes	**7.92**	**115,178**	**115,178**	**115,178**	**1,676,918**	**–**	**–**	**(675,525)**	**1,346,927**
		3,702,064	**303,628**	**360,925**	**1,963,511**	**309,146**	**1,698,601**	**(1,400,888)**	**6,936,987**
At 31 December 2007									
Trade and other payables	–	1,320,476	1,685	4	–	–	–	–	1,322,165
Amounts due to associates	–	116,411	–	–	–	–	–	–	116,411
Amounts due to jointly controlled entities	–	30,234	–	–	–	–	–	–	30,234
Amounts due to related companies	–	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 2008 and 2007, 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 RMB4,384,000 (2007: RMB1,353,000) has not been presented above.

notes to the financial statements

For the year ended 31 December 2008

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 contracts at the balance sheet date are as follows:

	2008		2007	
	RMB'000	**Expiry period**	RMB'000	Expiry period
Guarantees given to banks in respect of banking facilities utilised by:				
Jointly controlled entities	**–**	**n/a**	40,000	2008
Associates	**60,000**	**2009-2013**	43,000	2008
	60,000		83,000	

Fair value

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

- The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions; and
- The fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

Available-for-sale financial assets at 31 December 2008 of RMB13,956,000 (2007: RMB13,733,000) 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.

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:

	2008		2007	
	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
Amount due from a jointly controlled entity	**20,000**	**19,330**	89,000	87,638
Fixed-rate bank loans	**383,665**	**358,231**	489,857	487,870
Guaranteed notes	**1,346,927**	**1,354,950**	1,433,657	1,434,260

7. REVENUE

	2008 RMB'000	2007 RMB'000
Revenue comprises the following:		
Sales of goods		
Sales of piped gas	**3,094,767**	2,365,622
Distributions of bottled liquefied petroleum gas	**2,009,304**	1,092,226
Vehicle gas refuelling stations	**661,160**	275,795
Sales of gas appliances	**78,660**	97,548
	5,843,891	3,831,191
Provision of service		
Gas connection fees	**2,421,617**	1,925,079
	8,265,508	5,756,270

8. OTHER INCOME

	2008 RMB'000	2007 RMB'000
Included in other income are:		
Incentive subsidies (note a)	**38,456**	28,216
Interest income	**30,265**	52,789
Compensation received	**7,842**	1,865
Gain on foreign exchange, net	**89,917**	96,802
Gain on disposal of prepaid lease payment	**5,648**	2,475
Gain on disposal of available-for-sale financial assets	**–**	5,465
Gain on deemed acquisition of a subsidiary	**1,294**	–
Pipeline transmission income	**1,069**	2,724
Rental income from investment properties, net (note b)	**2,581**	3,196
Rental income from lease of equipment	**465**	–
Discount on acquisition of business (Note 43(a)(ii))	**663**	–
Repairs and maintenance income	**6,447**	2,782
Increase in fair value of investment properties	**–**	14,381
Income from conversion of fuel pipes of vehicles	**–**	4,214
Financial guarantee income	**1,696**	1,582

Notes:

(a) The amount represents incentives received from the government for sales of gas and provision of connection service and refunds of various taxes as incentives received from the government authorities in various cities of the PRC.

(b) The outgoing expenses deducted from the gross rental income of investment properties amounted to RMB108,000 (2007: RMB52,000).

notes to the financial statements

For the year ended 31 December 2008

9. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on:		
Bank and other loans wholly repayable within five years	**127,160**	84,509
Bank loans not wholly repayable within five years	**116,152**	112,128
Guaranteed notes	**107,629**	116,501
Short-term debenture	**51,307**	2,520
Discounted note receivables	**8,916**	–
	411,164	315,658
Less: Amount capitalised under construction in progress (note)	**(30,120)**	(34,485)
	381,044	281,173

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

10. PROFIT BEFORE TAXATION

	2008 RMB'000	2007 RMB'000
Profit before taxation has been arrived at after (crediting) charging:		
Impairment of trade and other receivables	**38,081**	91,606
Trade and other receivables recovered	**(53,015)**	(13,476)
Amortisation of intangible assets (included in cost of sales)	**27,543**	12,019
Amortisation of prepaid lease payments	**8,966**	6,800
Auditors' remuneration	**6,470**	7,310
Depreciation of property, plant and equipment	**276,356**	225,027
Impairment of available-for-sale financial assets (included in administrative expenses)	**18**	107
Loss on disposal of investment properties	**–**	162
Revaluation (surplus) deficit on property, plant and equipment	**(9,645)**	8,733
Decrease (increase) in fair value of investment properties	**13,022**	(14,381)
Minimum lease payments under operating leases in respect of land and buildings recognised in consolidated income statement	**25,372**	12,577
Research and development expenses (included in administrative expenses)	**12,919**	1,449
Share-based payment expenses, including directors' emoluments (included in administrative expenses)	**4,330**	21,454
Other staff costs, including directors' emoluments	**596,639**	474,377
Less: Amount capitalised under construction in progress	**(34,059)**	(17,215)
	566,910	478,616
Share of tax of associates (included in share of results of associates)	**2,243**	6,468
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	**20,908**	12,993

11. REMUNERATION OF DIRECTORS AND EMPLOYEES

(a) Directors' emoluments

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

	2008					
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	**–**	**2,135**	**–**	**–**	**–**	**2,135**
Yang Yu	**–**	**1,412**	**–**	**525**	**–**	**1,937**
Chen Jiacheng	**–**	**1,488**	**280**	**488**	**62**	**2,318**
Zhao Jinfeng	**–**	**445**	**–**	**488**	**–**	**933**
Qiao Limin	**–**	**392**	**–**	**488**	**–**	**880**
Jin Yongsheng	**133**	**–**	**–**	**–**	**–**	**133**
Yu Jianchao	**–**	**445**	**–**	**488**	**–**	**933**
Cheung Yip Sang	**–**	**1,083**	**600**	**428**	**31**	**2,142**
Cheng Chak Ngok	**–**	**641**	**–**	**60**	**11**	**712**
Liang Zhiwei	**–**	**52**	**–**	**–**	**–**	**52**
Zhai Xiaoqin	**–**	**52**	**–**	**–**	**–**	**52**
Zhao Baoju	**133**	**–**	**–**	**–**	**–**	**133**
Wang Guangtian	**133**	**–**	**–**	**–**	**–**	**133**
Yien Yu Yu, Catherine	**133**	**–**	**–**	**–**	**–**	**133**
Kong Chung Kau	**133**	**–**	**–**	**–**	**–**	**133**
	665	**8,145**	**880**	**2,965**	**104**	**12,759**

	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

The amounts disclosed above include directors' fees of RMB399,000 (2007: RMB369,000) payable to independent non-executive directors. None of the directors waived any emoluments during the year.

notes to the financial statements

For the year ended 31 December 2008

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

(b) Five highest paid individuals

The five highest paid individuals in the Group in 2008 and 2007 were all directors of the Company and details of their emoluments are included in note (a) above.

12. TAXATION

	2008 RMB'000	2007 RMB'000
PRC Enterprise Income Tax:		
Current tax	**224,855**	111,956
Under (over) provision in prior years	**935**	(3,479)
	225,790	108,477
Deferred tax (Note 40)		
Current year	**34,165**	5,702
Attributable to a change in tax rate	**–**	(5,806)
	34,165	(104)
	259,955	108,373

The charge represents PRC Enterprise Income Tax for both years.

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 Regulation of the New Law. Under the New Law and the Implementation Regulation, the statutory Enterprise Income Tax rate is changed from 33% to 25%.

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 to 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 entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter and a 50% relief from PRC Enterprise Income Tax for the following three years ("2+3" tax preference) can continue enjoying the tax preference based on the Enterprise Income Tax rate of 25% or other preferential rate applicable to the entities 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 start the "2+3" tax preference from 2008.

The PRC Enterprise Income Tax rate of 25% is applied to the group entities for the year ended 31 December 2008 (2007: 33%) except for certain group entities which are entitled to various concessionary tax rates as disclosed below.

Pursuant to the relevant laws and regulations in the PRC in respect of preferential tax benefit for entities engaged in energy infrastructure business, certain PRC subsidiaries enjoying preferential tax rate of 15% of the Company in 2007 is gradually transit to the new tax rate of 25% within 5 years after the enforcement of the New Law and the tax rate applicable for 2008 is 18%.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are entitled to the "2+3" tax preference. Under the New Law, the PRC Enterprise Income Tax rates applicable to these subsidiaries range from 18% to 25% (2007: 15% to 33%) and the reduced tax rates for the relief period range from 9% to 12.5% (2007: 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 2009 to 2012.

The deferred tax balance as at 31 December 2007 had 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.

12. TAXATION *(continued)*

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

	2008 RMB'000	2007 RMB'000
Profit before taxation	**1,130,679**	814,517
Tax at the PRC Enterprise Income Tax rate of 25% (2007: 33%)	**282,670**	268,791
Tax effects of:		
Share of results of associates	**(1,837)**	2,145
Share of results of jointly controlled entities	**(48,207)**	(37,295)
Income not taxable for tax purpose	**(29,399)**	(69,915)
Expenses not deductible for tax purpose	**79,036**	92,579
Tax losses not recognised	**107,948**	85,887
Utilisation of tax losses previously not recognised	**(14,353)**	(16,725)
Deductible temporary differences not recognised	**37,787**	51,911
Tax concession and exemption granted to PRC subsidiaries	**(10,113)**	(11,865)
Different tax rates of subsidiaries	**(167,624)**	(247,855)
Under (over) provision in respect of prior years	**935**	(3,479)
Effect on change in tax rate	**–**	(5,806)
Withholding tax on undistributed profit of PRC entities	**23,112**	–
Income tax charge for the year	**259,955**	108,373

In addition to the income tax expense charged to consolidated income statement, a deferred tax charge of RMB692,000 (2007: deferred tax credit of RMB3,356,000) has been recognised in equity in the year (see Note 40).

13. DIVIDENDS

	2008 RMB'000	2007 RMB'000
Final dividend paid in respect of 2007 of HKD13.42 cents (2007: 2006 final dividend of HKD7.75 cents) per share (equivalent to approximately RMB12.57 cents per share (2007: 2006 final dividend of RMB7.79 cents per share))	**119,136**	77,274
Final dividend proposed in respect of 2008 of HKD17.71 cents (2007: 2007 proposed final dividend of HKD13.42 cents) per share (equivalent to approximately RMB15.62 cents per share (2007: 2007 proposed final dividend of RMB12.57 cents per share))	**157,676**	126,880

The final dividend in respect of 2008 of HKD17.71 cents (2007: HKD13.42 cents) (equivalent to approximately RMB15.62 cents (2007: RMB12.57 cents) per share on 1,009,759,397 shares (2007: 1,009,759,397 shares) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

notes to the financial statements

For the year ended 31 December 2008

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:

	2008 RMB'000	2007 RMB'000
Earnings		
Earnings for the purposes of basic earnings per share	**630,705**	507,520
Effect of dilutive potential ordinary shares:		
Fair value changes on convertible bonds	–	3,370
Earnings for the purposes of diluted earnings per share	**630,705**	510,890

	2008 Number of shares	2007 Number of shares
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,009,759,397**	989,917,751
Effect of dilutive potential ordinary shares:		
– share options	**17,370,733**	20,084,759
– convertible bonds	–	5,520,262
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,027,130,130**	1,015,522,772

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST/VALUATION							
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	2,137	5,286	233,348
Additions	120,875	157,573	49,775	23,151	134,887	1,210,292	1,696,553
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
Transfer from investment properties	18,423	–	–	–	–	–	18,423
Acquisition of subsidiaries	28,526	2,697	106,915	1,185	1,658	10,009	150,990
Additions	46,221	69,558	25,109	53,139	59,266	963,295	1,216,588
Reclassification	41,507	754,733	62,467	4,316	(3,346)	(859,677)	–
Disposals	(18,456)	(5,500)	(9,061)	(10,453)	(4,038)	–	(47,508)
Adjustment on valuation	(8,065)	–	–	–	–	–	(8,065)
At 31 December 2008	764,103	5,465,137	560,774	314,995	313,393	1,241,462	8,659,864
Comprising:							
At cost	–	5,465,137	560,774	314,995	313,393	1,241,462	7,895,761
At valuation 2008	764,103	–	–	–	–	–	764,103
	764,103	5,465,137	560,774	314,995	313,393	1,241,462	8,659,864
DEPRECIATION AND AMORTISATION/IMPAIRMENT							
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
Provided for the year	26,377	134,038	34,361	42,220	39,360	–	276,356
Eliminated on disposals	(3,175)	(1,229)	(3,726)	(6,914)	(2,328)	–	(17,372)
Adjustment on valuation	(23,202)	–	-	–	–	–	(23,202)
At 31 December 2008	–	500,432	110,966	111,478	76,089	5,512	804,477
CARRYING VALUES							
At 31 December 2008	764,103	4,964,705	449,808	203,517	237,304	1,235,950	7,855,387
At 31 December 2007	655,947	4,276,026	295,013	190,636	220,796	1,122,323	6,760,741

notes to the financial statements

For the year ended 31 December 2008

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:

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

At the balance sheet date, the carrying value of land and buildings comprises properties in Hong Kong under long lease amounting to RMB20,705,000 (2007: Nil).

At the balance sheet date, the Group is in the process of obtaining title deeds for its buildings in the PRC amounting to approximately RMB262,693,000 (2007: RMB238,000,000). 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 2008, resulting in a revaluation surplus of RMB15,137,000 (2007: deficit of RMB9,487,000), of which RMB5,492,000 has been credited (2007: RMB754,000 has been debited) to the property revaluation reserve and RMB9,645,000 has been credited (2007: RMB8,733,000 has been debited) to consolidated income statement. The valuation has been arrived at by reference to valuation carried out by Knight Frank Petty Limited ("Knight Frank Petty"), an independent firm of qualified professional valuers, on an open market value basis. Knight Frank Petty 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 2008, the carrying value of these revalued buildings amounted to RMB764,103,000 (2007: RMB655,947,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation of RMB647,343,000 (2007: RMB569,969,000).

During the year ended 31 December 2007, 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 had 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 had been recognised.

16. PREPAID LEASE PAYMENTS

	2008 RMB'000	2007 RMB'000
Operating leases prepayment in respect of:		
Land in Hong Kong under long leases	**4,912**	15,530
Land in the PRC under medium term land use rights	**476,670**	425,975
	481,582	441,505
Analysed for reporting purposes as:		
Non-current portion	**472,228**	432,479
Current portion	**9,354**	9,026
	481,582	441,505

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 RMB20,864,000 (2007: RMB24,871,000). 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 2007	70,886
Additions	16,683
Disposal during the year	(7,500)
Net increase in fair value recognised in the consolidated income statement	14,381
At 31 December 2007	94,450
Transfer to property, plant and equipment	(18,423)
Net decrease in fair value recognised in the consolidated income statement	(13,022)
At 31 December 2008	63,005

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.

	2008 **RMB'000**	2007 RMB'000
The carrying value of investment properties shown above comprises operating leases in respect of:		
Properties in Hong Kong under long lease (note)	**16,039**	44,642
Properties in PRC under medium term lease (note)	**46,966**	49,808
	63,005	94,450

Note: The amount includes leasehold lands and buildings classified as investment properties.

The fair value of the Group's investment properties at 31 December 2008 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty on an open market value basis. Knight Frank Petty 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 RMB29,449,000 (2007: RMB58,387,000) to secure general banking facilities and mortgage loan granted to the Group.

The property rental income, net of outgoing expenses of RMB108,000 (2007: RMB52,000), earned by the Group from its investment properties, all of which is leased out under operating leases, amounted to RMB2,581,000 (2007: RMB3,196,000).

notes to the financial statements

For the year ended 31 December 2008

18. GOODWILL

	2008 RMB'000	2007 RMB'000
COST		
At beginning of the year	**204,236**	184,267
Arising on:		
Acquisition of businesses (Note 43)	**15,296**	19,726
Acquisition of additional interest in a subsidiary (note)	**–**	243
At end of the year	**219,532**	204,236
IMPAIRMENT		
At beginning of the year	**(50,606)**	–
Impairment loss recognised in the year	**–**	(50,606)
At end of the year	**(50,606)**	(50,606)
CARRYING AMOUNTS		
At end of the year	**168,926**	153,630

Note: The amount represents goodwill arose from acquisition of the remaining 20% of registered capital of a then 80% owned 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 the balance sheet dates, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of:

	2008 RMB'000	2007 RMB'000
Sale of piped gas business located in Lianyungang, the PRC	**17,628**	17,628
Sale of piped gas business located in Kaifeng, the PRC	**15,833**	15,833
Sale of piped gas business located in Hangzhou Xiaoshan, the PRC	**37,011**	37,011
Production and sale of liquified natural gas ("LNG") (Note 43(a)(iii))	**15,296**	–
Other CGUs	**83,158**	83,158
	168,926	153,630

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)*

For the purpose of impairment testing, the Group prepares cash flow projection covering a 10-year period. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period. The cash flows beyond the 5-year period are extrapolated using an estimated growth pattern at growth rates between 0.46% to 26.21% (2007: 1.30% to 26.76%), and discount rate of 8% (2007: 8%). 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.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGUs to exceed the aggregate recoverable amount of the CGUs.

During the year ended 31 December 2007, 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 2007	250,160	30,310	280,470
Addition (note a)	19,120	–	19,120
Acquired on acquisition of businesses (Note 43(b))	182,920	12,097	195,017
At 31 December 2007	452,200	42,407	494,607
Addition (note b)	2,000	–	2,000
Acquired on acquisition of businesses (Note 43(a))	20,361	390	20,751
At 31 December 2008	474,561	42,797	517,358
AMORTISATION			
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
Charge for the year	26,008	1,535	27,543
At 31 December 2008	48,479	4,167	52,646
CARRYING VALUES			
At 31 December 2008	426,082	38,630	464,712
At 31 December 2007	429,729	39,775	469,504

Notes:

(a) During the year ended 31 December 2007, the Group acquired certain gas refuelling 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.

(b) During the year ended 31 December 2008, the Group acquired gas refuelling station operations rights from an independent third party at a cash consideration of RMB2,000,000. The operation rights is amortised over the operation periods of 30 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.

notes to the financial statements

For the year ended 31 December 2008

20. INTERESTS IN ASSOCIATES

	2008 RMB'000	2007 RMB'000
Cost of unlisted investment	**290,467**	387,724
Share of post-acquisition profits (losses), net of dividend received	**2,016**	(1,613)
	292,483	386,111

Details of the Group's associates as at 31 December 2007 and 31 December 2008 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 2008	2007	Principal activities
東莞新奥莞樟燃氣有限公司 ("Dongguan Xinao Guanzhang Gas Company Limited")	Incorporated	The PRC	**25%** (note a)	25% (note a)	Investment in gas pipeline infrastructure and sales of piped gas
北海新奥燃氣有限公司 ("Beihai Xinao Gas Company Limited")	Incorporated	The PRC	– (note b)	38% (note b)	Production and sales of LNG and compressed natural gas ("CNG"); design and installation of piped gas facilities; production, sales and repair of gas equipment and appliances
東莞長安新奥燃氣有公司 ("Dongguan Changan Xinao Gas Company Limited")	Incorporated	The PRC	**25%** (note a)	25% (note a)	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%**	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%**	30%	Sales of piped gas
咸陽新奥燃氣有限公司 ("Xianyang Xinao Gas Company Limited")	Incorporated	The PRC	**40%** (note c)	40%	Sales of piped gas
上海新奥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 d)	54.57% (note d)	Sales of liquid petroleum gas
上海九環汽車天然氣發展有限公司 ("Shanghai Jiuhuan Vehicle Natural Gas Development Company Limited")	Incorporated	The PRC	**40%** (note e)	40% (note e)	Sales of compressed natural 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 2008	2007	Principal activities
上海九環交通大眾油汽供應有限公司 ("Shanghai Jiuhuan Public Transportation Gas Supplies Company Limited")	Incorporated	The PRC	**47.29%**	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	**30%** (note g)	30% (note g)	Sales of liquid petroleum gas
新能能源有限公司 ("Xinneng Energy Company Limited")	Incorporated	The PRC	**15%** (note f)	15% (note f)	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%**	25%	Sales of piped gas and gas application
寧夏清潔能源發展有限公司 ("Ningxia Clean Energy Development Co., Ltd.")	Incorporated	The PRC	**30%**	–	Sales of liquid petroleum gas

Notes:

(a) The Group holds direct interest of 25% and indirect interest in these entities through a jointly controlled entity, Dongguan Xinao Gas Company Limited ("Dongguan Xinao"). The indirect interest in Dongguan Xinao Guanzhang Gas Company Limited and Dongguan Changan Xinao Gas Company Limited is 45% and 38% respectively.

(b) The Group held direct interest of 38% and indirect interest of 62% through a jointly controlled entity, Dongguan Xinao, in Beihai Xinao Gas Company Limited ("Beihai Xinao") in 2007. The Group has 49% equity interests in Dongguan Xinao. Although Dongguan Xinao controlled the composition of the board of directors of Beihai Xinao, the Group cannot exercise its control over Beihai Xinao through Dongguan Xinao and accordingly, it was therefore classified as an associate of the Group at 31 December 2007.

During the year ended 31 December 2008, the Group acquired additional 44% equity interest in Beihai Xinao and Beihai Xinao becomes the Company's subsidiary accordingly. Details of this acquisition are set out in Note 43(a)(iii).

(c) The Company disposed of Xianyang Xinao Gas Company Limited ("Xianyang Xinao") during the year and the transaction has not yet completed up to 31 December 2008, therefore, the Group's interests in Xianyang Xinao are reclassified as "Non-current assets classified as held for sale" during the year. Details of the disposals are set out in Note 32.

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

(e) 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 consider that the Group can only exercise significant influence over the entity and it is therefore classified as an associate of the Group.

(f) 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.

(g) The Group holds direct interest of 30% and indirect effective interest of 10.91% through another associate in the registered capital of Shanghai Jiuhuan Public Gas Supplies Company Limited. The Directors consider that the Group can only exercise significant influence over the entity and it is therefore classified as an associate of the Group.

notes to the financial statements

For the year ended 31 December 2008

20. INTERESTS IN ASSOCIATES *(continued)*

Included in the cost of investment in associates is goodwill of RMB47,668,000 (2007: RMB64,314,000) arising on acquisitions of associates. The movement of goodwill is set out below:

	2008 RMB'000	2007 RMB'000
At beginning of the year	**64,314**	71,111
Eliminated on deregistration of an associate (Note 43(b)(x))	**–**	(6,797)
Transferred to non-current assets held for sale	**(16,646)**	–
At end of the year	**47,668**	64,314

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

Name of associate	2008 RMB'000	2007 RMB'000
咸陽新奧燃氣有限公司	**–**	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
	47,668	64,314

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

	2008 RMB'000	2007 RMB'000
Total assets	**4,500,187**	3,007,232
Total liabilities	**(3,336,910)**	(1,686,031)
Net assets	**1,163,277**	1,321,201
Group's share of net assets of associates	**240,043**	316,842
Goodwill on acquisition of associates	**47,668**	64,314
Deemed capital contribution – financial guarantee	**4,772**	4,955
	292,483	386,111
Revenue	**1,084,858**	1,075,002
Profit (loss) for the year	**17,147**	(24,512)
Group's share of profit (loss) of associates for the year	**7,347**	(6,501)

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2008 RMB'000	2007 RMB'000
Cost of unlisted investments	**499,952**	349,066
Shares of post-acquisition profits, net of dividends received	**257,668**	134,606
	757,620	483,672

Details of the Group's jointly controlled entities as at 31 December 2007 and 31 December 2008 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 2008	2007	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%**	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	**55%** (note a)	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%**	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%**	49%	Investment in gas pipeline infrastructure and sales of piped gas
煙台新奧燃氣發展有限公司 ("Yantai Xinao Gas Development Company Limited")	Incorporated	The PRC	**50%**	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%**	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 b)	55% (note b)	Sales of piped gas
寧波新奧燃氣有限公司 ("Ningbo Xinao Gas Company Limited")	Incorporated	The PRC	**49%**	49%	Sales of piped gas
內蒙古呼鐵新能物流股份有限公司 ("Neimenggu Hutiexinneng Logistics Holdings Limited")	Incorporated	The PRC	**39%** (note c)	50%	Provision of logistic services by railway

notes to the financial statements

For the year ended 31 December 2008

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 2008	2007	Principal activities
長沙新奧燃氣發展有限公司 ("Changsha Xinao Gas Development Limited")	Incorporated	The PRC	**55%** (note d)	55% (note d)	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 d)	51% (note d)	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 d)	51% (note d)	Production, processing and operation of clean energy fuels like vehicle fuels, natural gas, liquified petroleum gas ("LPG"), directly lather and methanol. Fitting of vehicle fuel appliances, construction and operation of CNG supply facilities, operation of vehicle repair.
北航新奧航務有限公司 ("Xinao Harbour Company Limtied")	Incorporated	The PRC	**49%**	–	Construction and operation of the facilities in pier
開封新奧銀海車用燃氣有限公司 ("Kaifeng Xinao Yinhai Gas For Vehicle Company Limited")	Incorporated	The PRC	**49%**	–	Sale of gas appliances
廣東新奧龍鵬能源有限公司 ("Guangdong Xinao Longpeng Energy Company Limited")	Incorporated	The PRC	**55%** (note d)	–	Wholesale of liquefied petroleum gas
新奧新能源(蘇州)有限公司 ("Xinao New Energy (Suzhou) Company Limited")	Incorporated	The PRC	**50%**	–	Wholesale of liquefied petroleum gas, directly lather and methanol
雲南新奧清潔能源有限公司 ("Yunan Xinao Clean Energy Company Limited")	Incorporated	The PRC	**60%** (note d)	–	Production of compressed energy fuels including vehicle fuels, construction and operation of CNG supply facilities and operation of vehicle repair
廊坊新奧尤特萊職業培訓有限公司 ("Langfang ENN UTDSC Vocational Training Company Limited")	Incorporated	The PRC	**51%** (note d)	–	Provisional of professional technical training and consulting services of the business units
唐山新奧一運清潔能源有限公司 ("Tangshan Xinao Yiyun Clean Energy Company Limited")	Incorporated	The PRC	**60%** (note d)	–	Construction and operation of CNG supply facilities and sales of vehicle fuel gas
蘇州新奧燃氣有限公司 ("Suzhou Xinao Company Limited")	Incorporated	The PRC	**51%** (note d)	–	Wholesale of liquefied petroleum gas, CNG, directly lather and methanol

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

(a) During the year ended 31 December 2008, the Group entered into an agreement with a joint venture partner, 東莞市新鋒管道燃氣有限公司 to acquire additional 6% equity interest in a jointly controlled entity, Dongguan Xinao, at a consideration of RMB51,277,000. Upon the completion of the transaction, Dongguan Xinao is still be considered as a jointly controlled entity of the Group as the Group does not have the power to appoint further directors to control Dongguan Xinao under the joint venture agreement.

(b) 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.

(c) The Group holds 39% of the registered capital of Neimenggu Hutiexinneng Logistics Holdings Limited as at 31 December 2008. The change in shareholding during the year ended 31 December 2008 is resulted from capital injection from a new joint venture partner. Under the joint venture agreement, all financial and operational decision must be approved by more than two-third of the directors, therefore, Neimenggu Hutiexinneng Logistics Holdings Limited is classified as a jointly controlled entity of the Group.

(d) The Group holds more than 50% of the registered capital of these entities but it does not have the power to appoint further directors to control these entities and the joint venture partners in each entity control jointly on the operational and financial policies of each entity. Accordingly these entities are classified as jointly controlled entities of the Group.

Included in the cost of investments in jointly controlled entities is deemed capital contribution of RMB1,000,000 (2007: RMB1,000,000) in relation to financial guarantee contract issued by the Group and goodwill of RMB94,141,000 (2007: RMB69,521,000). The movement of goodwill is set out below:

	2008 **RMB'000**	2007 RMB'000
At beginning of the year	**69,521**	7,644
Arising on acquisition of jointly controlled entities	**–**	61,877
Arising on acquisition of additional interest in a jointly controlled entity, Dongguan Xinao	**24,620**	–
At end of the year	**94,141**	69,521

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

Name of jointly controlled entities	**2008** **RMB'000**	2007 RMB'000
煙台新奧燃氣發展有限公司	**7,644**	7,644
寧波新奧燃氣有限公司	**49,216**	49,216
德化廣安天然氣有限公司	**12,661**	12,661
東莞新奧燃氣有限公司	**24,620**	–
	94,141	69,521

notes to the financial statements

For the year ended 31 December 2008

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

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

	2008 RMB'000	2007 RMB'000
Current assets	**1,132,145**	377,262
Non-current assets	**1,550,339**	754,503
Current liabilities	**976,902**	376,117
Non-current liabilities	**513,422**	349,430
Income	**3,531,039**	802,531
Expenses	**3,130,630**	689,624

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2008 RMB'000	2007 RMB'000
Unlisted equity securities, at cost less impairment	**13,956**	13,733

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

23. LOAN RECEIVABLE

During the year ended 31 December 2008, the Group granted a loan amounting to RMB15,000,000 to an independent third party to the Group. The amount is interest bearing at the People's Bank of China ("PBOC") base rate plus 1%, repayable by annual instalment up to 31 March 2013 and secured by a piece of land owned by another independent third party to the Group.

24. AMOUNTS DUE FROM/TO ASSOCIATES

Included in the amount due from/to associate are trade receivables amounting to RMB6,083,000 (2007: RMB23,709,000) and trade payables amounting to RMB669,000 (2007: RMB19,362,000) and the aged analysis is as follow:

	2008 RMB'000	2007 RMB'000
Trade receivables due from associates		
0 – 3 months	**3,703**	11,802
4 – 6 months	**683**	8,198
7 – 9 months	**912**	2,816
10 – 12 months	**680**	859
More than 1 year	**105**	34
	6,083	23,709

24. AMOUNTS DUE FROM/TO ASSOCIATES *(continued)*

	2008 RMB'000	2007 RMB'000
Trade payables due to associates		
0 – 3 months	**669**	11,830
4 – 6 months	**–**	5,122
7 – 9 months	**–**	95
10 – 12 months	**–**	1,512
More than 1 year	**–**	803
	669	19,362

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

The unsecured amount due from an associate of RMB138,000,000 at 31 December 2007, carried interest at fixed rates per annum and the amount was eliminated upon the completion of acquisition of Beihai Xinao as set out in Note 43(a)(iii) during the year ended 31 December 2008. Other than this balance, the remaining balances at 31 December 2007 and 2008 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.

25. AMOUNTS DUE FROM/TO JOINTLY CONTROLLED ENTITIES

Included in the amount due from/to jointly controlled entities are trade receivables amounting to RMB95,016,000 (2007: RMB44,122,000) and trade payables amounting to RMB83,546,000 (2007: RMB14,191,000) and the aged analysis is as follow:

	2008 RMB'000	2007 RMB'000
Trade receivables due from jointly controlled entities		
0 – 3 months	**59,686**	31,812
4 – 6 months	**25,130**	4,829
7 – 9 months	**481**	131
10 – 12 months	**5,184**	179
More than 1 year	**4,535**	7,171
	95,016	44,122
Trade payables due to jointly controlled entities		
0 – 3 months	**70,651**	6,234
4 – 6 months	**3,910**	24
7 – 9 months	**2,959**	531
10 – 12 months	**1,940**	–
More than 1 year	**4,086**	7,402
	83,546	14,191

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 amount due from a jointly controlled entity of RMB89,000,000 as at 31 December 2007 and 2008 which bears interest at fixed rates range from 6.12% to 6.57% per annum and is repayable in 2009 to 2010, the remaining balances at 31 December 2007 and 2008 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.

notes to the financial statements

For the year ended 31 December 2008

26. INVENTORIES

	2008 RMB'000	2007 RMB'000
Construction materials	**154,134**	115,588
Gas appliances	**32,007**	27,989
Piped gas	**37,299**	57,408
Bottled liquefied petroleum gas	**8,440**	20,668
Spare parts and consumable	**22,180**	13,703
	254,060	235,356

The cost of inventories recognised as an expense during the year was RMB5,019,197,000 (2007: RMB2,344,794,000).

27. TRADE AND OTHER RECEIVABLES

	2008 RMB'000	2007 RMB'000
Trade receivables	**490,754**	617,562
Less: Impairment	**(39,231)**	(96,953)
	451,523	520,609
Other receivables	**335,901**	213,205
Less: Impairment	**(39,232)**	(33,363)
	296,669	179,842
Notes receivable	**186,342**	28,329
Advance to supplier, deposits and prepayments	**496,553**	341,177
Trade and other receivables	**1,431,087**	1,069,957

Included in trade receivables are retentions held by customers for contract work with an average retention period of one year amounting to RMB1,892,000 (2007: RMB1,567,000).

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:

	2008 RMB'000	2007 RMB'000
0 – 3 months	**280,300**	364,593
4 – 6 months	**101,705**	84,799
7 – 9 months	**40,811**	40,659
10 – 12 months	**16,423**	23,372
More than 1 year	**12,284**	7,186
	451,523	520,609

27. TRADE AND OTHER RECEIVABLES *(continued)*

The following is an aged analysis of notes receivable:

	2008 RMB'000	2007 RMB'000
0 – 3 months	**179,845**	22,437
4 – 6 months	**6,497**	5,892
	186,342	28,329

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 RMB401,498,000 (2007: RMB435,455,000) 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 73 days (2007: 76 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.

	2008 RMB'000	2007 RMB'000
Within one year	**401,151**	434,658
Over one year	**347**	797
Total	**401,498**	435,455

Movements in the impairment on trade receivables

	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	**96,953**	39,134
Impairment losses recognised on receivables	**30,206**	71,295
Amounts recovered during the year	**(51,009)**	(13,476)
Amounts written off as uncollectible	**(36,919)**	–
Balance at end of the year	**39,232**	96,953

notes to the financial statements

For the year ended 31 December 2008

27. TRADE AND OTHER RECEIVABLES *(continued)*

Movements in the impairment on other receivables

	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	33,363	15,900
Impairment losses recognised on receivables	7,875	20,311
Amounts recovered during the year	(2,006)	–
Amount written off as uncollectible	–	(2,848)
Balance at end of the year	39,232	33,363

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.

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

	2008 RMB'000	2007 RMB'000
Contract costs incurred plus recognised profits	625,830	554,976
Less: Progress billings	(596,118)	(524,710)
	29,712	30,266
Analysed for reporting purposes as:		
Amounts due from customers for contract work	495,318	335,910
Amounts due to customers for contract work	(465,606)	(305,644)
	29,712	30,266

29. AMOUNTS DUE FROM RELATED COMPANIES

	2008			2007		
	Balance at 31.12.2008 RMB'000	Balance at 1.1.2008 RMB'000	Maximum amount outstanding during the year RMB'000	Balance at 31.12.2007 RMB'000	Balance at 1.1.2007 RMB'000	Maximum amount outstanding during the year RMB'000
Amounts due from minority shareholders of subsidiaries with significant influence	33,465	26,197	33,465	26,197	74,434	82,117
Amounts due from companies controlled by a major shareholder and director (note a)	23,557	17,076	30,151	17,076	27,350	27,350
	57,022	43,273		43,273	101,784	

Note:

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

(b) At 31 December 2007, an amount of RMB5,000,000 was interest bearing at 5.85% and an amount of RMB3,017,000 was interest bearing at PBOC base rate. Other than disclosed above, the remaining balances at 31 December 2007 and 2008 are unsecured, interest-free and recoverable on demand. The Group expects the amounts will be recoverable within one year from the balance sheet date.

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

Included in the amount due from related companies are trade receivables amounting to RMB24,913,000 (2007: RMB17,761,000) and the aged analysis is as follow:

	2008 **RMB'000**	2007 RMB'000
0 – 3 months	**4,558**	9,588
4 – 6 months	**776**	166
7 – 9 months	**2,227**	720
10 – 12 months	**597**	886
More than 1 year	**16,755**	6,401
	24,913	17,761

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

30. RESTRICTED BANK DEPOSITS

	2008 **RMB'000**	2007 RMB'000
Bank deposits secured for:		
Bills facilities	**39,430**	–
Purchase contracts with suppliers	**39,987**	–
Rights of operation	**400**	–
	79,817	–

Restricted bank deposits as at 31 December 2008 represent the bank deposits pledged to banks to secure certain bills facilities granted to the Group by certain banks, purchase contracts with suppliers and rights of operation and are therefore classified as current assets. The restricted bank deposits carry fixed interest rate range from 0.36% to 1.98% per annum as at 31 December 2008. The restricted bank deposits will be released upon the settlement of relevant bill facilities and the expiry of purchase contracts or operation rights.

31. 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 3.06% (2007: 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 RMB2,142,000 (2007: RMB123,386,000), of which, RMB849,000 (2007: RMB2,956,000) and RMB1,254,000 (2007: RMB120,356,000) are denominated in USD and HKD respectively.

notes to the financial statements

For the year ended 31 December 2008

32. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The amount represents the Group's 40% equity interests in Xianyang Xinao stated at the lower of its carrying amount and fair value less costs to sell. Pursuant to a share transfer agreement dated 9 April 2008 entered into between the Company as vendor and 咸陽市國有資產監督管理委員會, an independent third party, as purchaser, the Company agreed to sell its entire 40% equity interest of Xianyang Xinao to 咸陽市國有資產監督管理委員會 at a consideration of RMB82,000,000. RMB75,000,000 was received during the year ended 31 December 2008 as a deposit for the transaction and was classified as "Liability associated with assets classified as held for sale" as at 31 December 2008. The remaining consideration will be settled upon completion of the transaction. The transaction is subsequently completed in March 2009.

33. TRADE AND OTHER PAYABLES

	2008 **RMB'000**	2007 RMB'000
Trade payables aged:		
0 – 3 months	**604,911**	538,657
4 – 6 months	**157,560**	145,312
7 – 9 months	**84,548**	68,031
10 – 12 months	**54,523**	34,564
More than 1 year	**112,511**	105,870
Trade payables	**1,014,053**	892,434
Advances received from customers	**1,122,741**	882,895
Accrued charges and other payables	**615,486**	429,731
	2,752,280	2,205,060

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

34. AMOUNTS DUE TO RELATED COMPANIES

	2008 **RMB'000**	2007 RMB'000
Amounts due to minority shareholders of subsidiaries with significant influence	**2,366**	5,400
Amounts due to companies controlled by a major shareholder and director (note a)	**19,469**	24,379
Amount due to a shareholder	**13,672**	–
	35,507	29,779

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.

34. AMOUNTS DUE TO RELATED COMPANIES *(continued)*

Included in the amounts due to related companies are trade payables amounting to RMB20,398,000 (2007: RMB29,462,000) and the aged analysis is as follow:

	2008 RMB'000	2007 RMB'000
0 – 3 months	**16,721**	24,742
4 – 6 months	**–**	519
7 – 9 months	**–**	37
10 – 12 months	**2,030**	259
More than 1 year	**1,647**	3,905
	20,398	29,462

35. BANK AND OTHER LOANS

	2008 RMB'000	2007 RMB'000
Bank loans		
Secured	**1,848,086**	1,761,370
Unsecured	**1,441,046**	1,298,569
	3,289,132	3,059,939
Other loans		
Secured	**40,545**	54,496
Unsecured	**96,493**	107,857
	137,038	162,353
	3,426,170	3,222,292
The bank and other loans are repayable:		
Within one year	**1,239,450**	834,779
Between one to two years	**65,863**	144,378
Between two to five years	**494,252**	435,923
More than five years	**1,626,605**	1,807,212
	3,426,170	3,222,292
Less: Amount due within one year shown under current liabilities	**1,239,450**	834,779
Amount due after one year	**2,186,720**	2,387,513

All the bank and other loans are denominated in the functional currency of respective group entities except for RMB34,174,000 (2007: RMB109,569,000) and RMB125,786,000 (2007: RMB18,370,000) which are denominated in USD and HKD respectively.

The secured bank and other loans are secured by pledge of property, plant and equipment, investment properties and rights to fee income of certain subsidiaries and a jointly controlled entity as set out in Note 46 and Note 47.

notes to the financial statements

For the year ended 31 December 2008

35. BANK AND OTHER LOANS *(continued)*

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

At 31 December 2008

	Maturity date	Effective interest rate per annum	Carrying amount RMB'000
Fixed-rate borrowings			
7.12% secured RMB bank loan	6/5/2009	7.12%	**79,300**
5.86% – 7.47% unsecured RMB bank loan	30/4/2009 – 2/10/2009	7.03%	**207,872**
3.38% – 5% unsecured RMB other loans	12/6/2017	3.38% – 5%	**96,493**
Total fixed-rate borrowings			**383,665**
Floating-rate borrowings			
Unsecured RMB bank loan at PBOC base rate	10/1/2009 – 15/12/2020	7.37%	**1,199,000**
Secured RMB bank loan at PBOC base rate	2/4/2009 – 20/12/2020	8.38%	**1,643,000**
Unsecured USD bank loan at London Inter Bank Offer Rate plus 1.5%	15/6/2009 – 15/12/2009	5.98%	**34,174**
Secured HKD bank loan of HKD125,000,000 at HIBOR plus 0.75% – 1.15%	12/6/2009	2.58%	**110,236**
Secured HKD bank loan of HKD17,633,000 at Prime rate minus 2.05% – 2.2%	11/7/2013 – 27/9/2022	3.50%	**15,550**
Secured RMB other loan at prevailing market rate	15/12/2014 – 12/6/2017	3.48%	**40,545**
Total floating rate borrowings			**3,042,505**
Total borrowings			**3,426,170**

35. BANK AND OTHER LOANS *(continued)*

At 31 December 2007

	Maturity date	Effective interest rate per annum	Carrying amount RMB'000
Fixed-rate borrowings			
5.18% – 6.39% unsecured RMB bank loan	14/1/2008 – 18/7/2008	5.7%	382,000
2.55% – 5.38% unsecured RMB other loans	9/12/2008 – 12/6/2017	2.55% – 5.38%	107,857
Total fixed-rate borrowings			489,857
Floating-rate borrowings			
Unsecured RMB bank loan at PBOC base rate	23/1/2008 – 15/12/2020	6.52%	807,000
Secured RMB bank loan at PBOC base rate	1/4/2008 – 20/12/2020	6.94%	1,743,000
Unsecured USD bank loan at London Inter Bank Offer Rate plus 1.5%	15/6/2009 – 15/12/2009	7.06%	109,569
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
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
Total borrowings			3,222,292

36. 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, to issue short-term debenture with a maximum limit of RMB1,000,000,000 up to 31 October 2008.

Details of the outstanding balances at 31 December 2008 are as follows:

	2008 RMB'000	2007 RMB'000
Short term debenture issued during the year and repayable within one year	**630,043**	398,375

	2008	2007
Interest rate per annum	**5.95%**	5.75%

notes to the financial statements

For the year ended 31 December 2008

37. FINANCIAL GUARANTEE LIABILITY

As at 31 December 2008, the Group had outstanding guarantees issued to banks to secure loan facilities granted to two associates to the extent of RMB60,000,000 (2007: RMB43,000,000) for one to five-year loans, of which the amounts have been utilised at the balance sheet dates. The carrying amount of financial guarantee contracts as at 31 December 2008 is RMB4,384,000.

As at 31 December 2007, the Group had outstanding guarantee issued to bank to secure loan facilities granted to a jointly controlled entity to the extent of RMB40,000,000 for a four year loans. The carrying amount of financial guarantee contracts as at 31 December 2007 was RMB1,353,000. The guarantee was released during the year ended 31 December 2008.

38. SHARE CAPITAL

	2008 Number of shares	2007 Number of shares	**2008 HK$'000**	2007 HK$'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	**1,009,759,397**	973,958,599	**100,976**	97,396
Issue of shares on:				
Exercise of share options	–	19,010,000	–	1,901
Conversion of convertible bonds	–	16,790,798	–	1,679
At end of the year	**1,009,759,397**	1,009,759,397	**100,976**	100,976

	2008 RMB'000	2007 RMB'000
Presented in financial statements as:		
At beginning of the year	**106,318**	102,825
Issue of shares on:		
Exercise of share options	–	1,855
Conversion of convertible bonds	–	1,638
At end of the year	**106,318**	106,318

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.

39. GUARANTEED NOTES

	2008 RMB'000	2007 RMB'000
Guaranteed notes	**1,346,927**	1,433,657

On 5 August 2005, the Company issued guaranteed notes in the aggregate principal amount of US$200,000,000 (equivalent to approximately RMB1,610,040,000) 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.

40. 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	Undistributed retained profit of PRC entities from 1 January 2008 RMB'000 (note)	Others RMB'000	Total RMB'000
At 1 January 2007	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
Acquisition of subsidiaries and businesses	–	5,187	–	–	–	5,187
(Credit) charge to income statement	–	(5,835)	18,828	23,112	(1,940)	34,165
Charge to equity	692	–	–	–	–	692
At 31 December 2008	**12,648**	**91,790**	**26,842**	**23,112**	**(3,519)**	**150,873**

Note: The amount represents deferred taxation in respect of the temporary differences attributable to the undistributed retained profits earned after 1 January 2008 by the group entities registered in the PRC. The amount has been provided based on the total amount of undistributed retained profit of PRC entities from 1 January 2008 attributable to non-PRC shareholders as the Director considers the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

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

notes to the financial statements

For the year ended 31 December 2008

40. DEFERRED TAXATION *(continued)*

At the balance sheet date, the Group has unused tax losses of RMB781,722,000 (2007: RMB466,011,000) 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:

	2008 RMB'000	2007 RMB'000
2008	**–**	10,681
2009	**13,369**	16,524
2010	**25,177**	37,980
2011	**88,484**	140,157
2012	**222,903**	260,669
2013	**431,789**	–
	781,722	466,011

At the balance sheet date, the Group has deductible temporary differences in respect of allowance for doubtful debts of RMB78,463,000 (2007: RMB130,316,000). 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.

41. DEFERRED INCOME

In 2008, the Group received upfront fee amounting to RMB20,770,000 in respect of provision for gas connection service and gas supply. The amount has been treated as deferred income and recognised in the consolidated income statement over the service period. No income has been credited to the consolidated income statement during the year ended 31 December 2008 as the relevant pipelines are still under construction.

42. 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.

42. SHARE OPTION SCHEME *(continued)*

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

					Number of options			
	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Reallocation (note)	Outstanding at 31.12.2008
Directors	15.3.2006	16.9.2006 – 15.3.2016	HK$6.65	7,900,000	–	–	(2,700,000)	5,200,000
	15.3.2006	16.3.2008 – 15.3.2016	HK$6.65	19,750,000	–	–	(6,750,000)	13,000,000
Employees	15.3.2006	16.9.2006 – 15.3.2016	HK$6.65	3,640,000	–	–	2,700,000	6,340,000
	15.3.2006	16.3.2008 – 15.3.2016	HK$6.65	9,100,000	–	–	6,750,000	15,850,000
				40,390,000	–	–	–	40,390,000
Exercisable at the end of the year								40,390,000

Note: Upon the resignation of two directors, Mr. Yang Yu and Qiao Limin on 18 November 2008, the outstanding share options held by them are reallocated as they are still the employees of the Group upon after the resignation.

					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

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 40,390,000 (2007: 40,390,000) representing 4.0% (2007: 4.0%) of the shares of the Company in issue as at that date.

The Group recognised the total expense of RMB4,330,000 (2007: RMB21,454,000) for the year ended 31 December 2008 in relation to share options granted by the Company in 2006.

notes to the financial statements

For the year ended 31 December 2008

43. ACQUISITION OF BUSINESSES

(a) Acquisition during the year ended 31 December 2008

(i) On 5 May 2008, the Group acquired 90% of the registered capital of 廣州富城管道燃氣有限公司 at a cash consideration of RMB17,000,000. 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 RMB'000	**Fair value adjustment** RMB'000	**Fair value** RMB'000
Net assets acquired:			
Plant and equipment	429	–	429
Intangible assets			
– customer base	–	390	390
– right of operation	–	20,361	20,361
Inventories	681	–	681
Trade and other receivables	1,742	–	1,742
Cash and cash equivalents	847	–	847
Trade and other payables	(874)	–	(874)
Shareholder's loan	(4,500)	–	(4,500)
Deferred taxation	–	(5,187)	(5,187)
	(1,675)	15,564	13,889
Minority interests			(1,389)
Total consideration, satisfied by cash			12,500
Net cash outflow arising on acquisition:			
Cash consideration paid			(12,500)
Cash paid on settlement of shareholder's loan			(4,500)
Cash and cash equivalents acquired			847
			(16,153)

廣州富城管道燃氣有限公司 contributed a loss of RMB3,182,000 and revenue of RMB2,128,000 to the Group for the period between the date of acquisition and the balance sheet date.

43. ACQUISITION OF BUSINESSES *(continued)*

(a) Acquisition during the year ended 31 December 2008 *(continued)*

(ii) On 14 October 2008, the Group acquired 100% of the registered capital of 許昌市綠色環保汽車技術有限公司, which is engaged in conversion of fuel pipes of vehicles business, at a cash consideration of RMB1 from four individuals, who are independent third parties to the Group. This transaction has been accounted for using the purchase method of accounting. The provisional fair value of assets and liabilities, the amounts of which approximates to the carrying amount immediate before the acquisition, acquired in the transaction is set out as follows:

	RMB'000
Net assets acquired:	
Plant and equipment	45
Inventories	343
Trade and other receivables	181
Cash and cash equivalents	360
Trade and other payables	(266)
	663
Discount on acquisition	(663)
Total consideration	–
Net cash inflow arising on acquisition, representing cash and cash equivalents acquired	360

許昌市綠色環保汽車技術有限公司 contributed a profit of RMB121,000 and revenue of RMB726,000 to the Group for the period between the date of acquisition and the balance sheet date.

notes to the financial statements

For the year ended 31 December 2008

43. ACQUISITION OF BUSINESSES *(continued)*

(a) Acquisition during the year ended 31 December 2008 *(continued)*

(iii) On 1 December 2008, the Group acquired additional 44% of the registered capital of an existing associate, Beihai Xinao, from a jointly controlled entity, Dongguan Xinao, at a cash consideration of RMB69,200,000. This transaction has been accounted for using the purchase method of accounting. The provisional fair value of assets and liabilities acquired, which approximates to the carrying amount immediate before the acquisition, in the transaction is set out as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	150,516
Prepaid lease payments	5,011
Inventories	11,222
Trade and other receivables	82,373
Cash and cash equivalents	533
Loan from a shareholder	(138,000)
Trade and other payables	(6,831)
	104,824
Minority interest	(18,868)
Interest in an associate	(44,744)
Elimination of share of profit on gain on disposal of Beihai Xinao recognised by Dongguan Xinao, net off against share of result of jointly control entities for the year	12,692
Goodwill	15,296
Total consideration, included in other payable	69,200
Net cash outflow arising on acquisition:	
Cash and cash equivalents acquired	533

Beihai Xinao is engaged in production and sale of LNG in the southern area of the PRC. Due to the limited supply of LNG in the southern area of the PRC, the Directors consider that the goodwill arising from the acquisition of Beihai Xinao is resulted from the benefit from secured LNG supply to the Group and the profitability through sale to customers in Guangxi and Guangdong Provinces.

Beihai Xinao contributed a loss of RMB831,000 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 2008, total group revenue for the year ended 31 December 2008 would have been RMB8,305,075,000 and profit for the year ended 31 December 2008 would have been RMB869,754,000. 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 2008, nor is it intended to be a projection of future results.

43. ACQUISITION OF BUSINESSES *(continued)*

(b) 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.

notes to the financial statements

For the year ended 31 December 2008

43. ACQUISITION OF BUSINESSES *(continued)*

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

(ii) On 16 April 2007, the Group acquired 100% of the registered capital of 蚌埠市鑫達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 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 contributed 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.

43. ACQUISITION OF BUSINESSES *(continued)*

(b) 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 sale 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.

34 > directors' report 47 > corporate governance report 71 > independent auditor's report 72 > consolidated income statement 73 > consolidated balance sheet

notes to the financial statements

For the year ended 31 December 2008

43. ACQUISITION OF BUSINESSES *(continued)*

(b) 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 43 (b)(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.

43. ACQUISITION OF BUSINESSES *(continued)*

(b) 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 sale 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.

notes to the financial statements

For the year ended 31 December 2008

43. ACQUISITION OF BUSINESSES *(continued)*

(b) 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 infrastructure business, through the acquisition of business from 洛陽新奧華油 as set out in Note 43 (b)(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
	9,360
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.

43. ACQUISITION OF BUSINESSES *(continued)*

(b) 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 sale 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 as at 31 December 2007 and settled in 2008			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.

notes to the financial statements

For the year ended 31 December 2008

43. ACQUISITION OF BUSINESSES *(continued)*

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

(viii) In April 2007, an existing 90% owned subsidiary of the Company, 衢州新奥燃氣有限公司, 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 衢州新奥燃氣有限公司.

43. ACQUISITION OF BUSINESSES *(continued)*

(b) 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 as at 31 December 2007 (note)			45,353
			80,353
Net cash outflow arising on acquisition:			
Cash consideration paid			(35,000)
Cash and cash equivalents acquired			307
			(34,693)

Note: RMB20,000,000 of the amount is settled during the year ended 31 December 2008.

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.

notes to the financial statements

For the year ended 31 December 2008

43. ACQUISITION OF BUSINESSES *(continued)*

(b) 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 is set out as follows:

	Carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Plant and equipment	14,439	–	14,439
Intangible assets – rights of operation	–	39,614	39,614
Inventory	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.

43. ACQUISITION OF BUSINESSES *(continued)*

(b) 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 RMB'000	**Fair value adjustment** RMB'000	**Fair value** 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 as at 31 December 2007 and settled in 2008			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.

notes to the financial statements

For the year ended 31 December 2008

44. CAPITAL COMMITMENTS

	2008 **RMB'000**	2007 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for	**45,408**	121,024
Capital commitment in respect of investment in joint ventures	**32,400**	–
Group's share of capital commitments contracted but not provide in respect of its joint ventures	**1,076**	–

45. 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:

	2008 **RMB'000**	2007 RMB'000
Within one year	**19,942**	11,887
In the second to fifth year inclusive	**30,711**	16,067
Over five years	**26,571**	5,126
	77,224	33,080

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 4.0% (2007: 3.4%) 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:

	2008 **RMB'000**	2007 RMB'000
Within one year	**1,902**	1,352
In the second to fifth year inclusive	**3,209**	1,357
Over five years	**1,232**	–
	6,343	2,709

46. 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:

	2008 RMB'000	2007 RMB'000
Carrying amount of:		
Property, plant and equipment	**87,783**	78,153
Investment properties	**29,449**	58,387
Restricted bank deposits	**79,817**	–
	197,049	136,540

In addition to the above, the Group has also pledged its rights to receive gas connection and gas supply fee income of certain subsidiaries in favour of banks to secure banking facilities amounting to RMB1,950,000,000 granted to the Group and RMB1,505,000,000 of which is utilised up to 31 December 2008.

47. RELATED PARTY TRANSACTIONS

Apart from the related party balance as stated in Notes 24, 25, 29 and 34, the Group had the following transactions with certain related parties:

	2008 RMB'000	2007 RMB'000
Nature of transaction		
Associates:		
– Sales of gas to	**32,397**	25,266
– Sales of materials to	**3,082**	1,637
– Purchase of gas from	**28,001**	38,420
– Purchase of materials from	**2,404**	–
– Provision of gas transportation services to	**11,748**	9,522
– Loan interest received from	**8,819**	6,162
Jointly controlled entities:		
– Sales of gas to	**223,973**	8,305
– Sales of materials to	**63,338**	33,259
– Purchase of gas from	**136,047**	91,517
– Provision of gas transportation services to	**179,869**	15,095
– Loan interest received from	**5,735**	5,213
– Purchase of materials		
– dimethyl ether ("DME") from	**3,197**	–
– Payment made on behalf of the Group	**2,866**	885
– Disposal of assets to	**–**	39,212

notes to the financial statements

For the year ended 31 December 2008

47. RELATED PARTY TRANSACTIONS *(continued)*

	2008 RMB'000	2007 RMB'000
Nature of transaction		
Companies controlled by Mr. Wang:		
– Sales of gas to	**2,021**	3,674
– Sales of materials to	**–**	177
– Purchase of materials – DME from	**288,210**	26,719
– Purchase of compressed natural gas truck trailers, pressure regulating and gas equipment from	**–**	104,846
– Provision of gas connection service to	**2,170**	5,047
– Provision of property management services by	**4,419**	2,473
– Provision of property management services to	**436**	363
– Deposit for purchase of compressed natural gas truck trailers, pressure regulating and gas equipment paid to	**–**	310
– Provision of decoration services by	**3,500**	4,910
– Lease of premises to	**1,039**	1,983
– Lease of premises from	**2,596**	–
– Provision of supporting services by	**20,117**	–
– Purchase of land and premises from	**–**	326
– Donate to (note)	**4,880**	540
Minority shareholders of subsidiaries with significant influence		
– Provision of gas connection service to	**1,546**	120
– Provision of construction service by	**1,788**	877
– Loan advance to	**2,775**	–
– Lease of premises from	**1,244**	245
– Lease of land from	**3,520**	2,052
– Provision of transportation services by	**901**	–
– Purchase of business from	**–**	86,353

Note:

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

In addition, Mr. Wang and Ms. Zhao Baoju, spouse of Mr. Wang has provided personal guarantees to the extent of RMB450,000,000 to certain banks for banking facilities granted to the Group as at 31 December 2008.

An jointly controlled entity has pledged its rights to receive gas supply fee income in favour of a bank to secure banking facility amounting to RMB100,000,000 granted to the Group and RMB95,000,000 of which is utilised up to 31 December 2008.

Compensation of key management personnel

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

48. SEGMENT INFORMATION

(a) Business segments

The Group's primary format of reporting segment information is business segment.

In the prior year, the Group divided its operations into four divisions namely gas connection, sales of piped gas, distributions of bottled liquefied petroleum gas and sales of gas appliances. The results relating to the vehicles gas refuelling stations operation was previously combined with the sales of piped gas division. Having considered the rapid growth in the vehicles gas refuelling stations operation, the Directors consider this segment will be distinct from that of the sales of piped gas division and accordingly, the results of vehicles gas refuelling stations were disclosed under a separate segment in the current year and the comparative figure of this segment for the year ended 31 December 2007 has also been restated.

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

2008

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	Unallocated segment RMB'000	Consolidation RMB'000
Revenue	2,421,617	3,094,767	2,009,304	78,660	661,160	–	8,265,508
Segment result before depreciation and gain on disposal of property, plant and equipment	1,489,766	875,361	(46,690)	26,265	181,687	–	2,526,389
Depreciation	(34,940)	(196,400)	(4,224)	(2,522)	(6,736)	–	(244,822)
Gain on disposal of property, plant and equipment	–	10,880	–	–	–	–	10,880
Segment result	1,454,826	689,841	(50,914)	23,743	174,951	–	2,292,447
Unallocated other income							162,739
Unallocated corporate expenses							(1,143,638)
							1,311,548
Share of results of associates	2,026	(794)	–	–	6,526	(411)	7,347
Share of results of jointly controlled entities	151,197	52,222	(8,316)	(213)	(1,356)	(706)	192,828
Finance costs							(381,044)
Profit before taxation							1,130,679
Taxation							(259,955)
Profit for the year							870,724

notes to the financial statements

For the year ended 31 December 2008

48. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

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	Vehicle gas refuelling stations RMB'000	Unallocated segment RMB'000	Consolidation RMB'000
Revenue	1,925,079	2,365,622	1,092,226	97,548	275,795	–	5,756,270
Segment result before depreciation, impairment and loss on disposal of property, plant and equipment	1,188,214	620,214	15,126	25,365	65,999	–	1,914,918
Depreciation	(14,594)	(195,855)	(7,038)	(3,443)	(1,453)	–	(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	1,119,888	389,155	8,088	21,922	64,546	(6,722)	1,596,877
Unallocated other income							222,037
Unallocated corporate expenses							(829,738)
							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

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

2008

	Gas connection RMB'000	**Sales of piped gas RMB'000**	**Distributions of bottled liquefied petroleum gas RMB'000**	**Sales of gas appliances RMB'000**	**Vehicle gas refuelling stations RMB'000**	**Unallocated segment RMB'000**	**Consolidation RMB'000**
Assets:							
Segment assets	**1,929,547**	**7,072,727**	**334,702**	**132,787**	**355,196**	**–**	**9,824,959**
Interests in associates	**23,257**	**–**	**–**	**–**	**139,566**	**129,660**	**292,483**
Interests in jointly controlled entities	**501,967**	**191,518**	**21,204**	**2,727**	**19,676**	**20,528**	**757,620**
Unallocated corporate assets							**3,699,256**
Consolidated total assets							**14,574,318**
Liabilities:							
Segment liabilities	**1,945,541**	**635,747**	**30,525**	**69,399**	**24,835**	**–**	**2,706,047**
Unallocated corporate liabilities							**6,426,831**
Consolidated total liabilities							**9,132,878**

48. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

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	Vehicle gas refuelling stations RMB'000	Unallocated segment RMB'000	Consolidation RMB'000
Assets:							
Segment assets	1,601,326	5,307,436	241,305	167,874	181,274	–	7,499,215
Interests in associates	22,354	122,515	–	–	111,123	130,119	386,111
Interests in jointly controlled entities	301,517	169,470	–	–	11,500	1,185	483,672
Unallocated corporate assets							4,181,140
Consolidated total assets							12,550,138
Liabilities:							
Segment liabilities	1,376,759	542,145	33,173	47,405	13,727	–	2,013,209
Unallocated corporate liabilities							5,876,271
Consolidated total liabilities							7,889,480

OTHER INFORMATION

2008

	Gas connection RMB'000	**Sales of piped gas RMB'000**	**Distributions of bottled liquefied petroleum gas RMB'000**	**Sales of gas appliances RMB'000**	**Vehicle gas refuelling stations RMB'000**	**Unallocated segment RMB'000**	**Total RMB'000**
Capital additions	**155,889**	**843,825**	**82,827**	**4,632**	**74,071**	**90,473**	**1,251,717**

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	Vehicle gas refuelling stations RMB'000	Unallocated segment RMB'000	Total RMB'000
Capital additions	182,166	816,754	55,979	24,310	51,938	707,582	1,838,729

(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.

notes to the financial statements

For the year ended 31 December 2008

49. RETIREMENT BENEFITS SCHEME

	2008 RMB'000	2007 RMB'000
Retirement benefit contribution made during the year	**31,977**	32,884

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 2008, there were no forfeited contributions, which arose upon employees leaving the retirement benefits schemes, available to reduce the contribution payable in the future periods.

50. POST BALANCE SHEET EVENTS

(a) The transaction on the disposal of an associate, Xianyang Xinao, as set out in Note 32, has been fully completed on 17 March 2009.

(b) The Group entered into an agreement with two independent third parties, 重慶施凱清潔能源有限公司 and 重慶市隆安實業開發有限公司, to acquire their 100% equity interest in 湖南施凱清潔能源有限公司 at a consideration of RMB13,000,000 in October 2008. Upon the completion of the transaction on 11 March 2009, it becomes a subsidiary of the Group.

(c) Subsequent to the balance sheet date 31 December 2008, 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
淮安新奧淮陰車用燃氣有限公司 Huaian Xinao Huaiyin Gas Vehicle Co., Ltd.	PRC	USD1,000,000	**100%**	The exploration and promotion of CNG technologies for use in vehicles
灤縣新奧燃氣有限公司 Luan County Xinao Gas Co., Ltd.	PRC	RMB5,000,000	**100%**	Investment in gas pipeline infrastructure and sales of piped gas
新奧(廊坊)能源商務服務有限公司 ENN (Langfang) Business Service Co., Ltd.	PRC	RMB10,000,000	**100%**	Provision of integrated IT support, financial consultancy service and human resource support

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

51. 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 2008	2007	Principal activities
北海新奥燃氣有限公司 Beihai Xinao Gas Company Limited	PRC	RMB120,000,000	**82.00%**	–	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
北京新奥燃氣有限公司 Beijing Xinao Gas Company Limited*	PRC	US$1,195,600	**95.00%**	95.00%	Sales of piped gas
北京新奧華鼎貿易有限公司 Beijing Xinao Huading Trading Company Limited#	PRC	US$1,800,000	**100.00%**	100.00%	Retail of gas pipelines, related materials and equipment
北京新奧京昌燃氣有限公司 Beijing Xinao Jingchang Gas Company Limited*	PRC	RMB9,900,000	**80.00%**	80.00%	Sales of piped gas
北京新奧京谷燃氣有限公司 Beijing Xinao Jinggu Gas Company Limited*	PRC	RMB9,900,000	**90.00%**	90.00%	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	**70.00%**	70.00%	Sales of liquefied gas and gas appliance
蚌埠新奧清潔能源發展有限公司 Bengbu Xinao Clean Energy Development Company Limited	PRC	RMB50,000,000	**100.00%**	–	Sales of gas and gas appliance; storage, transportation and sales of DME
蚌埠新奧燃氣有限公司 Bengbu Xinao Gas Company Limited*	PRC	RMB110,000,000	**70.00%**	70.00%	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	**70.00%**	70.00%	Sales of piped gas and bottled liquefied petroleum gas
蚌埠市鑫達液化氣有限責任公司 Bengbu City Xinda Liquefied Gas Company Limited*	PRC	RMB500,000	**70.00%**	70.00%	Sales of liquefied gas and gas appliance

notes to the financial statements

For the year ended 31 December 2008

51. 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 2008	2007	Principal activities
濱州新奧燃氣工程有限公司 Binzhou Xinao Gas Engineering Company Limited#	PRC	US$600,000	**100.00%**	100.00%	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	**70.00%**	70.00%	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	**70.00%**	70.00%	Investment in gas pipeline infrastructure
長沙新奧燃氣有限公司 Changsha Xinao Gas Company Limited*	PRC	RMB120,000,000	**55.00%**	55.00%	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	RMB22,000,000	**46.75%** (note a)	46.75% (note a)	Investment in gas pipeline infrastructure and sales of piped gas
長沙星沙新奧燃氣發展有限公司 Changsha Xingsha Xinao Gas Development Company Limited*	PRC	RMB8,000,000	**46.75%** (note a)	–	Exploitation and sales of piped gas
常州新奧燃氣發展有限公司 Changzhou Xinao Gas Development Company Limited*	PRC	US$600,000	**60.00%**	60.00%	Sales of piped gas
常州新奧燃氣工程有限公司 Changzhou Xinao Gas Engineering Company Limited*	PRC	US$5,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
巢湖新奧燃氣有限公司 Chaohu Xinao Gas Company Limited#	PRC	US$5,784,000	**100.00%**	100.00%	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	**100.00%**	100.00%	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	**100.00%**	100.00%	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	**90.00%**	90.00%	Sales of piped gas

51. 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 2008	2007	Principal activities
滁州新奧燃氣工程有限公司 Chuzhou Xinao Gas Engineering Company Limited*	PRC	US$600,000	**93.00%**	93.00%	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	**100.00%**	100.00%	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	**100.00%**	100.00%	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	**100.00%**	100.00%	Sales of CNG, LPG and LNG
廣州富城管道燃氣有限公司 Guangzhou Fucheng Piped Gas Company Limited	PRC	RMB2,000,000	**90.00%**	–	In business preparation process. Not yet defined.
貴港新奧燃氣有限公司 Guigang Xinao Gas Company Limited#	PRC	US$3,500,000	**100.00%**	100.00%	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	**100.00%**	100.00%	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	**60.00%**	60.00%	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	**60.00%**	60.00%	Investment in gas pipeline infrastructure
固鎮新奧燃氣有限公司 Guzhen Xinao Gas Company Limited#	PRC	RMB4,500,000	**100.00%**	100.00%	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	**100.00%**	100.00%	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	**100.00%**	100.00%	Sales of piped gas

notes to the financial statements

For the year ended 31 December 2008

51. 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 2008	2007	Principal activities
海寧新奧燃氣有限公司 Haining Xinao Gas Company Limited*	PRC	US$5,000,000	**80.00%**	80.00%	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	**86.00%**	86.00%	Sales of piped gas
海鹽新奧燃氣有限公司 Haiyan Xinao Gas Company Limited#	PRC	US$9,000,000	**100.00%**	–	Sales of piped gas and gas appliance
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	**51.00%**	51.00%	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	**95.00%**	95.00%	Investment in gas pipeline infrastructure and sales of piped gas
衡水新奧車用燃氣有限公司 Hengshui Xinao Vehicle Gas Company Limited*	PRC	RMB16,000,000	**80.00%**	–	Construction and operation of vehicle gas refuelling stations
淮安新奧燃氣有限公司 Huaian Xinao Gas Company Limited*	PRC	RMB35,000,000	**100.00%**	100.00%	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	RMB7,000,000	**100.00%**	100.00%	Sales of piped gas and gas appliance
淮安新奧清河車用燃氣有限公司 Huaian XinAo Qinghe Gas Vehicle Company Limited#	PRC	US$1,000,000	**100.00%**	–	Sales of CNG for vehicle use and related equipments; construction and operation of vehicle gas refuelling stations
惠安縣燃氣有限公司 Huian County Gas Company Limited*	PRC	RMB20,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
惠安新奧燃氣有限公司 Huian Xinao Gas Company Limited	PRC	RMB10,000,000	**60.00%**	–	Investment in gas pipeline infrastructure

51. 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 2008	2007	Principal activities
葫蘆島新奧燃氣有限公司 Huludao Xinao Gas Company Limited*	PRC	US$1,207,700	**90.00%**	90.00%	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	**90.00%**	90.00%	Investment in gas pipeline infrastructure
湖南新奧清潔能源有限公司 Hunan Xinao Clean Energy Company Limited#	PRC	US$3,000,000	**100.00%**	100.00%	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	**51.00%**	51.00%	Research and development, production and sale of IC card metre and software system
金華新奧燃氣有限公司 Jinhua Xinao Gas Company Limited#	PRC	US$5,000,000	**100.00%**	100.00%	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	**100.00%**	100.00%	Sales of piped gas
晉江新奧燃氣有限公司 Jinjiang Xinao Gas Company Limited*	PRC	RMB60,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
晉江新奧燃氣管道輸配有限公司 Jinjiang Xinao Gas Pipeline Transmission Company Limited	PRC	RMB30,000,000	**60.00%**	–	Investment in gas pipeline infrastructure
開封新奧燃氣有限公司 Kaifeng Xinao Gas Company Limited*	PRC	US$10,000,000	**90.00%**	90.00%	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	**90.00%**	90.00%	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	**95.00%**	95.00%	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	**95.00%**	95.00%	Investment in gas pipeline infrastructure

notes to the financial statements

For the year ended 31 December 2008

51. 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 2008	2007	Principal activities
萊陽新奧燃氣有限公司 Laiyang Xinao Gas Company Limited*	PRC	US$5,000,000	**95.00%**	95.00%	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	**96.50%**	96.50%	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	**100.00%**	100.00%	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	**100.00%**	100.00%	Sales of piped gas
廊坊新奧燃氣設備有限公司 Langfang Xinao Gas Equipment Company Limited*	PRC	US$360,000	**100.00%**	100.00%	Manufacture of stored value card gas metre
廊坊新奧軟件科技有限公司 Langfang Xinao Software Technology Company Limited*	PRC	US$120,000	**100.00%**	100.00%	Development, production and sale of IC card metre and software system
蘭溪新奧燃氣有限公司 Lanxi Xinao Gas Company Limited*	PRC	US$1,500,000	**80.00%**	80.00%	Investment in gas pipeline infrastructure and sales of piped gas
連雲港新奧燃氣有限公司 Lianyungang Xinao Gas Company Limited*	PRC	RMB49,512,100	**70.00%**	70.00%	Sales of piped gas
連雲港新奧燃氣工程有限公司 Lianyungang Xinao Gas Development Company Limited*	PRC	RMB10,000,000	**70.00%**	70.00%	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	**90.00%**	90.00%	Sales of piped gas
聊城新奧燃氣工程有限公司 Liaocheng Xinao Gas Engineering Company Limited*	PRC	US$1,200,000	**93.00%**	93.00%	Investment in gas pipeline infrastructure
六安新奧燃氣有限公司 Luan Xinao Gas Company Limited#	PRC	RMB20,000,000	**100.00%**	100.00%	Sales of piped gas

51. 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 2008	2007	Principal activities
六安新奧燃氣工程有限公司 Luan Xinao Gas Project Company Limited#	PRC	US$800,000	**100.00%**	100.00%	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	**70.00%**	70.00%	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	**70.00%**	70.00%	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	**70.00%**	70.00%	Investment in gas pipeline infrastructure
洛陽新奧華油燃氣有限公司 Luoyang Xinao Huayou Gas Company Limited*	PRC	RMB160,000,000	**70.00%**	70.00%	Sales of natural gas, LPG and coal gas
洛陽新奧液化氣有限公司 Luoyang Xinao Liquefied Gas Limited#	PRC	RMB16,090,000	**100.00%**	100.00%	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$880,000	**100.00%**	100.00%	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	**42.00%** (note d)	42.00% (note d)	Investment in gas pipeline infrastructure and sales of piped gas
南安新奧燃氣有限公司 Nanan Xinao Gas Company Limited	PRC	RMB10,000,000	**42.00%** (note e)	–	Investment in gas pipeline infrastructure
南昌新奧清潔能源有限公司 Nanchang Xinao Clean Energy Company Limited#	PRC	US$7,500,000	**100.00%**	–	Provision of regional energy solutions
南寧新奧清潔能源有限公司 NanNing XinAo Clean Energy Company Limited*	PRC	RMB10,000,000	**85.00%**	–	Construction and operation of vehicle gas refuelling stations; production and sales of clean energy

notes to the financial statements

For the year ended 31 December 2008

51. 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 2008	2007	Principal activities
南通新能氣體開發有限公司 Nantong Xinneng Gas Development Company Limited*	PRC	RMB6,000,000	**60.00%**	–	Sales of CNG, LNG and gas appliance
南通新奧燃氣工程有限公司 Nantong Xinao Gas Technology Company Limited#	PRC	US$800,000	**100.00%**	100.00%	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	**100.00%**	100.00%	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	**90.00%**	90.00%	Sales of piped gas
青島新奧燃氣設施開發有限公司 Qingdao Xinao Gas Establishment Exploiture Company Limited*	PRC	US$600,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
青島新奧膠城燃氣有限公司 Qingdao Xinao Jiaocheng Gas Company Limited*	PRC	US$5,000,000	**90.00%**	90.00%	Sales of piped gas
青島新奧膠城燃氣工程有限公司 Qingdao Xinao Jiaocheng Gas Engineering Company Limited#	PRC	HK$4,500,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
青島新奧膠南燃氣有限公司 Qingdao Xinao Jiaonan Gas Company Limited#	PRC	US$4,400,000	**90.00%**	90.00%	Sales of piped gas
青島新奧膠南燃氣工程有限公司 Qingdao Xinao Jiaonan Gas Engineering Company Limited#	PRC	US$1,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
青島新奧新城燃氣有限公司 Qingdao Xinao Xincheng Gas Company Limited*	PRC	US$1,610,000	**90.00%**	90.00%	Sales of piped gas
青島新奧新城燃氣工程有限公司 Qingdao Xinao Xincheng Gas Engineering Company Limited*	PRC	US$800,000	**93.00%**	93.00%	Investment in gas pipeline infrastructure

51. 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 2008	2007	Principal activities
全椒新奧燃氣有限公司 Quanjiao Xinao Gas Company Limited#	PRC	US$1,590,000	**100.00%**	100.00%	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	**100.00%**	100.00%	Investment in gas pipeline infrastructure
泉州市燃氣有限公司 Quanzhou City Gas Company Limited*	PRC	RMB450,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
泉州市燃氣輸配有限公司 Quanzhou Gas Transmission Company Limited*	PRC	RMB30,000,000	**60.00%**	–	Investment in gas pipeline infrastructure
泉州市泉港新奧燃氣有限公司 Quanzhou Quangang Xinao Gas Company Limited*	PRC	RMB20,000,000	**60.00%**	–	Investment in gas pipeline infrastructure
衢州新奧燃氣有限公司 Quzhou Xinao Gas Company Limited*	PRC	RMB50,000,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
衢州新奧燃氣發展有限公司 Quzhou Xinao Gas Development Company Limited*	PRC	US$600,000	**90.00%**	90.00%	Sales of piped gas
日照新奧燃氣有限公司 Rizhao Xinao Gas Company Limited*	PRC	US$5,600,000	**80.00%**	80.00%	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	**86.00%**	86.00%	Investment in gas pipeline infrastructure
日照新奧實業有限公司 Rizhao Xinao Industry Company Limited#	PRC	RMB5,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
容城新奧燃氣有限公司 Rongcheng Xinao Gas Company Limited	PRC	RMB5,350,000	**100.00%**	–	Exploitation and sales of piped gas and gas appliance

notes to the financial statements

For the year ended 31 December 2008

51. 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 2008	2007	Principal activities
商丘新奧燃氣有限公司 Shangqiu Xinao Gas Company Limited#	PRC	US$7,000,000	**100.00%**	100.00%	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	**100.00%**	100.00%	Investment in gas pipeline infrastructure
汕頭新奧燃氣有限公司 Shantou Xinao Gas Company Limited*	PRC	RMB34,580,000	**51.00%**	51.00%	Sales of piped gas
山西沁水新奧燃氣有限公司 Shanxi Qinshui Xinao Gas Company Limited#	PRC	RMB50,000,000	**100.00%**	–	Production and sales of LNG
石家莊新奧燃氣有限公司 Shijiazhuang Xinao Gas Company Limited*	PRC	RMB300,000,000	**65.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奧車用燃氣有限公司 Shijiazhuang Xinao Vehicle Gas Company Limited*	PRC	RMB1,000,000	**65.00%** (note c)	39.00% (note c)	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	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
石獅新奧燃氣發展有限公司 Shishi Xinao Gas Development Company Limited	PRC	RMB10,000,000	**60.00%**	–	Investment in gas pipeline infrastructure
泰興新奧燃氣有限公司 Taixing Xinao Gas Company Limited*	PRC	US$1,200,000	**90.00%**	90.00%	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	**90.00%**	90.00%	Investment in gas pipeline infrastructure
台州新奧燃氣有限公司 Taizhou Xinao Gas Company Limited*	PRC	US$2,500,000	**80.00%** (note b)	80.00%	Investment in gas pipeline infrastructure and sales of piped gas

51. 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 2008	2007	Principal activities
台州新奧燃氣工程有限公司 Taizhou Xinao Gas Engineering Company Limited*	PRC	US$2,500,000 (note b)	**80.00%**	–	Transmission of gas; design and installation of gas equipments
通遼新奧燃氣有限公司 Tongliao Xinao Gas Company Limited*	PRC	US$3,000,000	**80.00%**	80.00%	Sales of piped gas
通遼新奧燃氣發展有限公司 Tongliao Xinao Gas Development Company Limited*	PRC	US$600,000	**80.00%**	80.00%	Investment in gas pipeline infrastructure
溫州龍灣新奧燃氣有限公司 Wenzhou Longwan Xinao Gas Company Limited#	PRC	US$9,500,000	**100.00%**	100.00%	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	**100.00%**	100.00%	Sales of piped gas
溫州新奧燃氣工程有限公司 Wenzhou Xinao Gas Engineering Company Limited#	PRC	US$700,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
湘潭新奧燃氣有限公司 Xiangtan Xinao Gas Company Limited*	PRC	RMB70,000,000	**85.00%**	85.00%	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	RMB30,000,000	**85.00%**	85.00%	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	**100.00%**	100.00%	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	**63.00%**	63.00%	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	**100.00%**	100.00%	Investment holding

notes to the financial statements

For the year ended 31 December 2008

51. 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 2008	2007	Principal activities
新奧能源咨詢有限公司 Xinao Energy Consultant Company Limited	PRC	RMB50,000,000	**100.00%**	–	Provision of consultation services on overall comprehensive energy solutions
新奧能源物流有限公司 Xinao Energy Logistics Company Limited#	PRC	US$12,400,000	**100.00%**	100.00%	Transportation of oil products and gas
新奧能源銷售有限公司 Xinao Energy Sales Company Limited#	PRC	US$6,200,000	**100.00%**	100.00%	Wholesale and retail of LNG & CNG, piped gas facilities, gas equipment, appliances and others
新奧燃氣發展有限公司 Xinao Gas Development Company Limited#	PRC	US$6,000,000	**100.00%**	100.00%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas
新奧燃氣工程有限公司 Xinao Gas Engineering Company Limited#	PRC	US$7,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奧燃氣投資集團有限公司 Xinao Gas Investment Group Limited	British Virgin Island	US$1,000	**100.00%**	100.00%	Investment holding
新奧(廊坊)燃氣技術研究發展有限公司 Xinao Gas Langfang Technology Research and Development Company Limited#	PRC	US$1,400,000	**100.00%**	100.00%	Technology research and development, product development
興化新奧燃氣有限公司 Xinghua Xinao Gas Company Limited#	PRC	US$1,200,000	**100.00%**	100.00%	Sales of piped gas
興化新奧燃氣工程有限公司 Xinghua Xinao Gas Engineering Company Limited#	PRC	US$600,000	**100.00%**	100.00%	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	**90.00%**	90.00%	Construction and operation of vehicle gas refuelling stations

51. 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 2008	2007	Principal activities
新鄉新奧燃氣有限公司 Xinxiang Xinao Gas Company Limited*	PRC	US$10,000,000	**95.00%**	95.00%	Sales of piped gas and bottled liquefied petroleum gas
新鄉新奧燃氣工程有限公司 Xinxiang Xinao Gas Engineering Company Limited*	PRC	US$1,200,000	**96.50%**	96.50%	Investment in gas pipeline infrastructure
新鄉新奧車用燃氣有限公司 Xinxiang Xinao Vehicle Gas Company Limited	PRC	RMB3,000,000	**61.75%**	–	Sales of gas for vehicle use and provision of related consultation services
許昌市綠色環保汽車技術有限公司 Xuchang Green Environmental Vehicle Technology Company Limited	PRC	RMB500,000	**80.00%**	–	Refitting and maintenance of natural gas vehicle supply system
許昌新奧清潔能源有限公司 Xuchang Xinao Clean Energy Company Limited*	PRC	RMB20,000,000	**80.00%**	80.00%	Construction and operation of vehicle gas refuelling stations
鹽城新奧燃氣有限公司 Yancheng Xinao Gas Company Limited*	PRC	RMB50,000,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure
鹽城新奧燃氣發展有限公司 Yancheng Xinao Gas Development Company Limited*	PRC	US$600,000	**79.00%**	79.00%	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	**100.00%**	100.00%	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	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
鹽城新城新奧燃氣發展有限公司 Yancheng Xincheng Xinao Gas Development Limited#	PRC	RMB10,000,000	**100.00%**	100.00%	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	**100.00%**	100.00%	Sales of piped gas

34 > directors' report 47 > corporate governance report 71 > independent auditor's report 72 > consolidated income statement 73 > consolidated balance sheet

notes to the financial statements

For the year ended 31 December 2008

51. 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 2008	2007	Principal activities
揚州新奧燃氣工程有限公司 Yangzhou Xinao Gas Engineering Company Limited#	PRC	US$800,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
煙台牟平新奧天然氣加氣有限公司 Yantai Muping Xinao Gas Refueling Limited*	PRC	RMB7,000,000	**58.00%**	58.00%	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	**100.00%**	100.00%	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	**60.00%**	60.00%	CNG vehicle refuelling station, pipeline construction, installation of gas equipment, production and sale of gas equipment and others
益陽新奧清潔能源有限公司 Yiyang XinAo Clean Energy Company Limited#	PRC	US$1,200,000	**100.00%**	–	Production and sales of CNG for vehicle use; sales of LNG
永康新奧燃氣有限公司 Yongkang Xinao Gas Company Limited#	PRC	US$8,000,000	**100.00%**	100.00%	Sales of piped gas
永康新奧燃氣工程有限公司 Yongkang Xinao Gas Engineering Company Limited#	PRC	US$800,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
湛江新奧燃氣有限公司 Zhanjiang Xinao Gas Company Limited*	PRC	RMB85,000,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure and sales of piped gas
肇慶市高新區新奧燃氣有限公司 Zhaoqing City High-New Zone Xinao Gas Company Limited*	PRC	US$2,100,000	**95.00%**	95.00%	Investment in gas pipeline infrastructure and sales of piped gas
肇慶新奧燃氣有限公司 Zhaoqing Xinao Gas Company Limited	PRC	RMB38,000,000	**100.00%**	–	Investment in gas pipeline infrastructure

51. 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 2008	2007	Principal activities
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	**100.00%**	100.00%	Sale of gas for vehicle use
諸城新奧燃氣有限公司 Zhucheng Xinao Gas Company Limited#	PRC	US$3,000,000	**100.00%**	100.00%	Sales of piped gas and bottled liquefied petroleum gas
諸城新奧管道工程有限公司 Zhucheng Xinao Pipeline Engineering Company Limited#	PRC	US$800,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
株洲新奧燃氣有限公司 Zhuzhou Xinao Gas Limited*	PRC	RMB135,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure
株洲新奧燃氣工程技術服務有限公司 Zhuzhou Xinao Gas Engineering Technology Services Company Limited	PRC	RMB8,000,000	**55.00%**	–	Investment in gas pipeline infrastructure
鄒平新奧燃氣有限公司 Zouping Xinao Gas Company Limited#	PRC	US$1,200,000	**100.00%**	100.00%	Sales of piped gas

Notes:

a. 長沙星沙新奧燃氣有限公司 has been split into two legal entities as 長沙星沙新奧燃氣有限公司 and 長沙星沙新奧燃氣發展有限公司 during the year ended 31 December 2008, accordingly the registered capital of 長沙星沙新奧燃氣有限公司 has been decreased from RMB30,000,000 to RMB22,000,000.

b. 台州新奧燃氣有限公司 has been split into two legal entities as 台州新奧燃氣有限公司 and 台州新奧燃氣工程有限公司 during the year ended 31 December 2008, accordingly, the registered capital of 台州新奧燃氣有限公司 has been decreased from US$5,000,000 to US$2,500,000 during the year ended 31 December 2008.

c. The Group held 39% indirect interest in 石家庄新奧車用燃氣有限公司 through the 65% direct interest held by a 60% owned subsidiary, 石家庄新奧燃氣有限公司 in 2007. During the year ended 31 December 2008, 石家庄新奧燃氣有限公司 disposed of its 65% equity interest held in its subsidiary, 石家庄新奧車用燃氣有限公司 to a wholly-owned subsidiary of the Company, 新奧燃氣發展有限公司.

d. The Group hold 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.

e. The Group hold 42% indirect interest in 南安新奧燃氣有限公司 through the 100% direct interest held by a 42% owned subsidiary, 南安市燃氣有限公司. Therefore the Group has control over this entity and it is considered as a subsidiary of the Company.

notes to the financial statements

For the year ended 31 December 2008

51. PARTICULAR OF PRINCIPAL SUBSIDIARIES *(continued)*

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

All 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 2008 or at any time during the year except for 新奧(中國)燃氣投資有限公司 which has issued short-term debenture to third party debenture holders with face value of RMB600,000,000, in which the Group has no interest.

* Sino-foreign equity joint venture

\# Wholly foreign owned enterprise

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