ENN 新奥

ENN Energy Holdings Limited

(Stock code: 2688)

WE ARE PROVIDING THE FUEL OF GROWTH

annual report 2010

ENN Energy & Innovation Ennovation

We treat the harmonic development between energy and environment as our prime mission and strive to promote the exploration and utilisation of energy with the use of innovative ideas and methods, seeking for clean, highly efficient and truly creative solutions for energy issues.

After years of devotion to promoting the exploration and utilisation of clean energy with innovation ideas and solutions, our coverage, energy distribution network and energy supply that we seeded is now well developed and mature. Leveraging this strong fuel of growth, ENN is now like a fertile field grown with golden wheat that is ready for harvest.

Operational Locations (The PRC)

West-to-East Pipeline

West-to-East Pipeline II (under construction)

Shaanxi-Beijing Pipeline I

Hebei Nanjing Pipeline

Zhong-Wu Pipeline

Shaanxi-Beijing Pipeline II

Sichuan-East Pipeline (under construction)

Zhangshu-Xianytan Pipeline (under construction)

Yong-Tai-Wen Pipeline (under construction)

China-Miandian Pipeline (under construction)

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

City	Connectable population
Inner Mongolia (1 project)	
44. Tongliao	763,000
Beijing Municipality (3 projects)	
3. Miyun	169,000
6. Pinggu	116,000
8. Changping	115,000
Hebei (4 projects)	
1. Langfang	511,000
29. Shijiazhuang	2,428,000
48. Luquan	90,000
74. Luanxian	80,000
Henan (6 projects)	
24. Xinxiang	1,049,000
40. Kaifeng	848,000
49. Shangqiu	1,480,000
55. Luoyang	1,528,000
68. Xinan	102,000
73. Yichuan	100,000
Anhui (9 projects)	
14. Bengbu	925,000
21. Chuzhou	269,000
22. Luan	342,000
26. Bozhou	224,000
30. Chaohu	234,000
58. Fengyang	106,000
63. Laian	85,000
65. Quanjiao	109,000
66. Guzhen	100,000
Hunan (6 projects)	
36. Xiangtan	864,000
39. Changsha	2,422,000
42. Zhuzhou	1,002,000
82. Huaihua	434,000
89. Changsha County	297,000
90. Zhuzhou County	270,000
Guangxi (2 projects)	
45. Gulin	850,000
51. Guigang	386,000
Jiangxi (1 project)	
75. Sanghai	50,000
Yunnan (1 project)	
81. Wenshan	252,000
Liaoning (2 projects)	
4. Huludao	477,000
5. Xingcheng	134,000
Shandong (11 projects)	
2. Liaocheng	569,000
7. Huangdao	316,000
9. Zhucheng	468,000
10. Chengyang	483,000
11. Yantai Development Zone	–
12. Yantai	1,789,000
15. Zouping	194,000
17. Laiyang	254,000
23. Rizhao	310,000
41. Jiaozhou	233,000
43. Jiaonan	389,000
Jiangsu (8 projects)	
13. Gaoyou	150,000
16. Taixing	240,000
18. Yancheng	895,000
19. Huaian	1,175,000
20. Haian	193,000
25. Xinghua	181,000
32. Wujin	978,000
38. Lianyungang	887,000
Zhejiang (14 projects)	
27. Haining	227,000
28. Quzhou	268,000
31. Lanxi	128,000
33. Jinhua	139,000
34. Wenzhou	–
35. Longwan	334,000
46. Huzhou	222,000
52. Taizhou	596,000
53. Yongkang	225,000
57. Xiaoshan	669,000
64. Ningbo (Yinzhou)	245,000
72. Haiyan	100,000
78. Longyou	100,000
79. Nanxun	497,000
Fujian (8 projects)	
56. Quanzhou	1,079,000
59. Nanan	376,000
60. Huian	138,000
61. Shishi	98,000
62. Jinjiang	375,000
67. Dehua	100,000
70. Quangang	380,000
77. Yongchun	153,000
Guangdong (14 projects)	
37. Dongguan	6,950,000
47. Zhanjiang	652,000
50. Shantou	1,441,000
54. Zhaoqing Development Zone	27,000
69. Zhaoqing	505,000
71. Guangzhou (Zengcheng)	100,000
76. Sihui	413,000
80. Huadu	444,000
83. Xinyi	250,000
84. Luoding	288,000
85. Fengkai	80,000
86. Guangning	80,000
87. Huaiji	123,000
88. Lianzhou	151,000

Total: 46,868,000

Contents

Corporate Information

Board of Directors

Executive director

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

Non-executive director

Zhao Baoju
Jin Yongsheng

Independent non-executive director

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

Company Secretary

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

WE WILL
FOCUS ON SATISFYING CUSTOMERS' DEMAND FOR ENERGY AND EXPANDING THE ENERGY DISTRIBUTION NETWORK RAPIDLY WITH THE USE OF QUALITY RESOURCES; DEVELOP ENERGY MANAGEMENT BUSINESS AND DIVERSIFIED ENERGY SUPPLY THROUGH APPLYING THE CONCEPT AND TECHNOLOGY OF SYSTEM EFFICIENCY IN ENERGY USE; PROMOTE OPERATION EXCELLENCE AND THUS BECOME A RESPECTFUL INTERNATIONAL ENERGY DISTRIBUTOR.

Principal Place of Business in Hong Kong
Rooms 3101–04, 31st Floor
Tower 1, Lippo Centre
89 Queensway
Hong Kong

Head Office in The PRC
Building A, ENN Industrial Park
Xinyuan DongDao Road
Economic and Technological Development Zone
Langfang City
Hebei Province
The PRC

Principal Share Registrar and Transfer Office in the Cayman Islands
Bank of Butterfield International (Cayman) Ltd
Butterfield House
Fort Street
P O Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong Branch Share Registrar and Transfer Office
Computershare Hong Kong Investor 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)

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OPPORTUNITIES DEVELOPMENT

Under the 12th Five-Year Plan, in the next five years, China will focus on accelerating the change of economic development mode, promoting urbanisation and stimulating the development of clean energy. By taking full advantage of the current excellent development opportunities, the Group will be able to make valuable contribution to China's economy and community while maximise our shareholders' value at the same time.

Successfully operated in **90 cities** in **15 provinces**

Provide clean energy products and services to **5.62 million residential households** and **18,424 commercial/industrial customers**

Annual capacity of natural gas reached **8.75 billion cubic meters**

Relying on sufficient gas sources protection, strong demand from customers, refined delivery mechanism, excellent corporate governance and outstanding business expansion ability, the Group's business will be flourishing consistently.

53.3%

Over the 10 years since listing, our compound annual growth rate of revenue is 53.3%

Chairman's Statement

Results of the Year

The year of 2010 witnessed the slow global economic recovery and the transition from China's 11th Five-Year Plan to the 12th Five-Year Plan. Thanks to the concerted effort of its employees, the Group continued to maintain a substantial growth during the year. The turnover and profit attributable to shareholders for the year reached RMB11,215,089,000 and RMB1,013,087,000 respectively, representing increases of 33.3% and 26.2% over last year, while the earnings per share increased by 24.2% to RMB96.5 cents.

This year, the Group secured 11 new urban piped gas projects in various locations in China, including Huadu District in Guangzhou, Fengkai County, Luoding City, Huaiji County, Guangning County, Xinyi City and Lianzhou City in Guangdong Province, Huaihua City, Changsha County and Zhuzhou County in Hunan Province, and Wenshan County in Yunnan Province. As a result, the number of secured projects by the Group in China increased to 90, and the total connectable urban population coverage increased by 2,669,000 to 46,868,000. On the other hand, the Group continued its efforts in developing vehicle gas refuelling station business. During the year, 30 new vehicle gas refuelling stations were built and put into operation. As of the end of 2010, the number of vehicle gas refuelling stations operated by the Group reached 192 and the volume of gas sold in the vehicle segment over the total volume

WANG Yusuo
Chairman

of gas sold was 12.5%. The growth in vehicle gas sales volume not only reflected the potential for greater development in vehicle gas refuelling station business, but also further secured the Group's future revenue from gas sales.

During the year, the Group completed piped natural gas connections for 875,744 residential households and 4,178 commercial/industrial ("C/I") customers (connected to gas appliances with total installed designed daily capacity of 4,619,944 cubic meters). As of the end of 2010, the accumulated number of residential households and C/I customers of natural gas were 5,419,826 and 17,767 (connected to gas appliances with total installed designed daily capacity of 17,649,198 cubic meters) respectively, while in terms of all piped gas users, the accumulated number of residential households and C/I customers reached 5,618,583 and 18,424 (connected to gas appliances with total installed designed daily capacity of 18,175,160 cubic meters) respectively. The sales volume of natural gas for the year grew rapidly by 44.7% to 3,807,605,000 cubic meters as compared with last year. The Group's ability to maintain satisfactory growth fully demonstrated the robust business development of the Group, our strong execution ability in vigorously raising the gas penetration rate of our existing gas projects, as well as the immense demand for and growth potential of natural gas in China.

Financial Position

As of the end of 2010, the Group's cash on hand was equivalent to RMB2,851,300,000 (2009: RMB2,712,661,000), and its total debts was equivalent to RMB6,262,913,000 (2009: RMB5,884,509,000). Its net gearing ratio, i.e. the ratio of net debt to equity (including non-controlling interests), was 45.2% (2009: 49.4%). As the Group vigorously raised the gas penetration rate of existing projects and expanded the vehicle gas refuelling station business, revenue from gas sales has become the major source of income for the Group. Such optimised revenue structure will generate long-term and stable cash flow for the Group, which has generated satisfactory net free cash inflow since 2008, allowing the Group to enjoy stable financial resources to pursue sustainable development.

Corporate Management

During the year, the informatisation program jointly developed with IBM China Company Limited ("IBM") has been carried out and promoted in full swing, leading to a significant enhancement in the operational efficiency. As of the end of 2010, the Group has developed the online business system for a total of 153 group companies, enabling them to process over 90% of business through the information system and realising the real-time online integration of different categories of operational figures so that various categories of operational figures and the corresponding analysis reports are accessible by the management at anytime. It also enabled performance review meetings to be conducted online with access to real-time figures. As a result, the benefit of high efficiency brought by informatisation has established a strong foundation to support the decisions of the Group.

During the year, the Group continued to further the application of strategic performance management system in all group companies. With the use of refined management tools like balanced scorecard, strategies of the Group were passed on from upper levels to each employee who was then required to submit action plans according to the strategy of the organisation such employee works in. Appraisals would also be done on the actual results of the work compared with the employee's own action plan. This guaranteed consistency of goals between organisation level and individual level, ensured speedy conveying and effective implementation of the Group's strategies, and also greatly enhanced the capability of staff.

International Awards

During the year, our 2009 annual report was awarded "silver, Overall Annual Report: Gas Distribution, Transport and Transmission" and "Bronze, Interior Design: Gas Distribution, Transport and Transmission" in the International ARC Awards. These remarkable achievements fully evidenced the clear and accurate disclosure of information in our annual reports, and our efficient communication with our shareholders.

During the period of the 12th Five-Year Plan, the wide recognition towards low-carbon economy in the community and the strict execution of the Chinese government's policy on energy saving and emission reduction will bring along unprecedented development opportunities for the natural gas industry, a clean and efficient form of energy.

Human Resources

At the end of 2010, the Group had 19,111 employees (2009: 16,856 employees). Besides the increasing number of gas projects, the Group also increased its manpower to meet the demand arising from its normal business development.

The Group has always adhered to its principle of "people-oriented" and considered talents as the vital source of our competitiveness and an indispensable factor for our future success and sustainable development. We believe that staff could provide satisfactory services to customers only if they are offered the opportunity of healthy development. We always regard our staff as our most valuable assets and the executors of the Group's strategies. Therefore, we have always attached high importance to recruitment and internal training, and offered learning and studying opportunities to employees as a kind of benefits and rewards. Employees are encouraged to pursue lifelong learning, and we would also formulate practical and tailor-made career development plans and create open career paths for them. By doing so, the personal growth of staff is closely associated with the growth of the organisation, which ensures an adequate talent pool for the Group's future sustainable healthy development.

In addition, to maintain our sustainable rapid growth and build a young management team who deeply recognises the corporate culture and supports the strategic development of the Group, during the year we have preliminarily established a distinctive training system for young management. A group of outstanding young members would be selected systematically every year to be the future leaders. Meanwhile, through talent evaluation and development, 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

According to the 2010 Domestic Economy and Social Development Statistics Report of the People's Republic of China, preliminary estimation indicated that the total energy consumption in 2010 amounted to 3.25 billion tons of standard coal, up 5.9% over last year. The consumption of coal, crude oil, natural gas and electric power grew by 5.3%, 12.9%, 18.2% and 13.1% respectively over last year. The national energy consumption per unit of gross domestic product in ten-thousand dollars decreased by 4.01%.

In the current primary energy consumption pattern in China, coal and petroleum account for 69% and 20% respectively while natural gas only accounts for 3.9%. New energy like hydropower, wind power and nuclear power merely accounts for 7% in total. Currently, the environment of China cannot afford the pollution caused by the existing energy structure by far, and it is among one of the nations which tops the list in respect of emission volume of carbon dioxide and sulphur dioxide. The coal-based energy structure has heightened the energy demand and the pressure on the environment, and the energy consumption pattern should be optimised in a short period to promote the development and use of natural gas, nuclear power, solar energy, wind power and other kinds of new energy. This does not only save energy and reduce emission, but is also the strategy for China to achieve sustainable economic development.

The year of 2011 marks the beginning of the 12th Five-year Plan, under which the Chinese government highlighted seven focuses of energy development: (1) to optimise the development of fossil fuels, reasonably control coal production capacity and enhance the supply of natural gas; (2) to accelerate the development of non-fossil fuels and ensure that the consumption of non-fossil fuels will account for 11% or above of the primary energy consumption by 2015; (3) to enhance the development of energy pipeline network; (4) to accelerate energy technology and facilities innovation; (5) to enhance energy saving and emission reduction; (6) to strengthen international energy cooperation; and (7) to promote the energy system reform. At the Copenhagen Climate Change Conference, the international community reached the consensus of developing a low-carbon economy. Natural gas, a clean and efficient fossil fuel, is the bridge in the transition to new energy as well as one of the pillars of low-carbon economy. It is estimated that the carbon dioxide emission of natural gas is 41% and 28% lower than that of coal and oil respectively. In the post global financial crisis era, extensive development and use of natural gas will be a realistic option for countries in response to global warming and an important strategy for maintaining the energy safety of a nation and enhancing its international competitiveness.

In 2009, the Chinese government pledged to reduce the emission of carbon dioxide per unit of gross domestic product by 40%-45% by 2020 as compared to 2005. In order to ensure the fulfillment of this goal, during the period of 12th Five-year Plan, China will put extra efforts in developing natural gas and increasing the share of electric power generated by natural gas. In particular, the development of coal-based power in Eastern China will be strictly controlled and the construction of power plant will focus on nuclear power and gas. To cope with the growing demand for natural gas, the Chinese government invested heavily in natural gas infrastructure. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline I and II, Shaanxi-Beijing Pipeline I, II and III, Zhong-Wu Pipeline, Sebei-Xining-Lanzhou Pipeline, Sichuan-East Pipeline, as well as two branch pipelines named Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. According to the plan of the Chinese government, 17 natural gas pipeline projects including the West-East Pipeline III and IV and China-Myanmar

Oil and Gas Pipeline will be completed and launched in the coming years. At the same time, more and more import LNG terminals will be built along the coast. The real "network era" for the natural gas industry will begin by then. On the other hand, although the consumption of natural gas is rising rapidly given the overwhelming demand, the gas reserve and facilities for peak time usage adjustments are still very insufficient. To ensure a stable natural gas supply, the Chinese government started to plan and construct a dozen natural gas storage facilities to enhance the peak time usage adjustments in winter. The construction of four storage facilities has been started and is expecting to be put into operation in 2012. In the future, the natural gas reserve is expected to account for 20% to 25% of the demand. Besides, the Chinese government issued the Opinions of State Council on Encouraging and Guiding Healthy Development of Private Investment during the year, and explicitly encouraged private investments in exploration and development of upstream oil and natural gas resources and in the construction of storage, transportation and pipeline facilities and network of crude oil, natural gas and refined oil, fully demonstrating the commitment of the Chinese government on the development of natural gas. According to the plan, China will increase the share of natural gas in primary energy from the current 3.9% to 8.3% by 2015.

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. It has also paid a great deal of efforts in establishing a resources saving and environmentally friendly society. Such change in mode of development has created the most tremendous opportunities for the natural gas industry ever.

In 2011, in light of the gradual recovery of the global economy, in particular the continuous growth in the economy of China, the Group will seize this golden opportunity for developing natural gas industry to formulate innovative ideas, further enlarge the economies of scale of the Group while maintaining a healthy cash flow, expand clean energy distribution network systematically, enhance the standard of customer services, fulfill the service and safety commitments made, optimise management quality through implementation of the informatisation program, and improve operational efficiency through strategic performance project. Moreover, the Group will continue to promote energy management projects. As of the end of 2010, the Group has achieved substantial progress in three polygeneration projects, including the Changsha Huanghua Airport, Xinxiang and Liuyang Biomedical Park which will come into operation shortly. We also completed the development of the three methane projects in Zhanjiang, Shantou and Dongguan, and achieved a breakthrough in key industrial furnace and boiler modification technology. In 2011, the Group aims at responding to customers' energy needs promptly and exploring their needs in-depth by acquiring resources at low costs and offering various energy solutions so that we can rapidly expand our business and contribute to energy saving and emission reduction at the same time. The Group will also expand the LNG business for cars and ships to create new sources of profit growth and long-term revenue in 2011. Moreover, building on the urban gas project the Group secured in Vietnam this year, the Group will actively explore the international operational model and seek overseas development opportunities for urban gas, expanding our international gas market steadily and striving to become an international energy distributor with excellent operation.

By doing so, the Group is able to make contribution to the environmental protection as well as the energy sector of not only China but also the whole world, while at the same time spare no effort to maximise the long-term benefits of our shareholders, customers, staff, society and enterprises.

Wang Yusuo
Chairman

25 March 2011

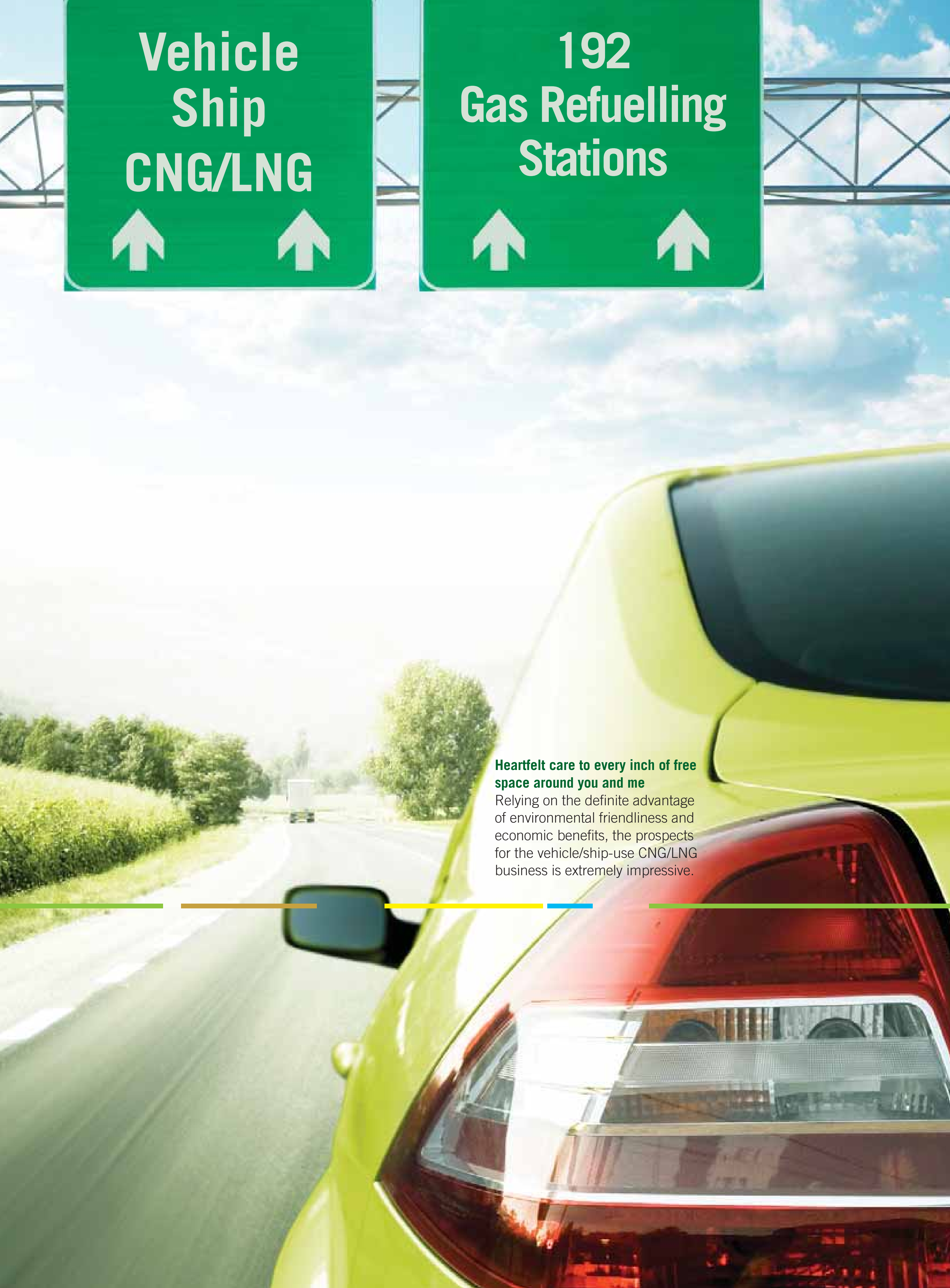
INNOVATION DEVELOPMENT

Persistent innovation of businesses has become the momentum for our continuous growth.

In recent years, leveraging on the advantages of efficiency, environmental friendliness and impressive economic benefits, the vehicle-use compressed natural gas business recorded a rapid growth. The group will continue to maintain at a fast growing development mode in the future and enlarge the scale of the vehicle/ship-use LNG business proactively. By doing so, the Group will not only be able to contribute to environmental protection but also maximise shareholders' returns at the same time.

As of the end of 2010, the Group has **192 vehicle gas refuelling stations** spread over **46 cities** in China.

The use of natural gas, a clean, environmental friendly and economic form of energy, in vehicle has become a fashionable trend and gained increasing popularity in drivers.



Heartfelt care to every inch of free space around you and me

Relying on the definite advantage of environmental friendliness and economic benefits, the prospects for the vehicle/ship-use CNG/LNG business is extremely impressive.

Project Operational Data

Operational data as at 31 December 2010

	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 processing stations (m^3)
1	Langfang	1993	429.9	4	632
2	Liaocheng	2000	296.3	2	460
3	Miyun	2000	95.2	3	168
4	Huludao	2000	276.1	1	230
5	Xingcheng (3)	2002	0.0	0	0
6	Pinggu	2001	135.3	1	180
7	Huangdao	2001	326.7	1	920
8	Changping	2001	140.5	1	200
9	Zhucheng	2001	179.2	0	0
10	Chengyang	2001	357.0	3	400
11	Yantai Development Zone	2001	10.4	1	45
12	Yantai	2004	548.1	6	960
13	Gaoyou	2001	70.5	1	72
14	Bengbu	2002	305.8	1	510
15	Zouping	2002	106.6	1	360
16	Taixing	2002	156.3	2	396
17	Laiyang	2002	185.0	1	72
18	Yancheng	2002	262.9	1	150
19	Huaian	2002	318.9	2	580
20	Haian	2002	114.3	1	122
21	Chuzhou	2002	300.5	2	600
22	Luan	2003	131.0	1	60
23	Rizhao	2002	258.0	1	300
24	Xinxiang	2002	426.0	1	560
25	Xinghua	2002	88.9	1	50
26	Bozhou	2003	152.3	1	46
27	Haining	2002	245.0	2	396
28	Quzhou	2002	144.5	3	280
29	Shijiazhuang	2002	581.9	1	792
30	Chaohu	2003	115.4	2	210
31	Lanxi	2003	34.3	0	0
32	Wujin	2003	895.2	2	1330
33	Jinhua	2003	106.8	2	210
34	Wenzhou	2003	69.6	1	120
35	Longwan (4)	2004	0.9	0	0
36	Xiangtan	2003	282.1	2	380
37	Dongguan	2003	979.4	4	1281
38	Lianyungang	2003	457.1	2	200
39	Changsha	2003	1219.9	6	1980
40	Kaifeng	2003	602.4	2	220
41	Jiaozhou	2003	221.1	1	420
42	Zhuzhou	2003	335.4	1	820
43	Jiaonan	2003	243.2	1	210
44	Tongliao	2004	85.2	1	50
45	Guilin	2004	208.0	2	240
46	Huzhou	2004	196.3	1	620
47	Zhanjiang	2004	230.3	2	380
48	Luquan	2004	25.0	1	1800
49	Shangqiu	2004	142.7	1	240
50	Shantou	2004	81.0	3	180
51	Guigang	2004	95.7	1	100
52	Huangyan	2005	93.5	0	0
53	Yongkang	2005	116.3	1	160
54	Zhaoqing Development Zone	2005	54.3	1	100
55	Luoyang	2006	1064.0	3	1000
56	Quanzhou	2006	246.9	5	567
57	Xiaoshan	1994	282.7	0	0
58	Fengyang	2005	19.8	0	0
59	Nanan	2006	54.4	1	210
60	Huian	2006	54.7	0	0
61	Shishi	2006	61.2	0	0
62	Jinjiang	2006	192.8	1	1161
63	Laian	2006	47.1	0	0
64	Ningbo	2007	254.0	0	0
65	Quanjiao	2007	66.2	0	0
66	Xinan	2007	35.0	1	0
67	Dehua	2003	77.8	1	120
68	Guzhen	2007	1.1	0	0
69	Zhaoqing	2008	84.0	1	120
70	Quangang	2008	3.3	0	0
71	Guangzhou Zengcheng	2007	23.4	0	0
72	Haiyan	2008	10.8	0	0
73	Sanghai	2009	0.0	0	0
74	Yichuan	2009	0.0	1	0
75	Luanxian	2009	0.0	0	0
76	Longyou	2009	16.8	0	0
77	Sihui	2009	24.4	0	0
78	Yongchun	2009	0.0	0	0
79	Nanxun	2009	0.0	0	0
80	Huadou	2010	139.4	0	0
81	Wenshan	2010	24.8	0	0
82	Huaihua	2010	21.9	0	0
83	Xinyi	2010	0.0	0	0
84	Luoding	2010	0.0	0	0
85	Fengkai	2010	0.0	0	0
86	Guangning	2010	0.0	0	0
87	Huaiji	2010	0.0	0	0
88	Lianzhou	2010	0.0	0	0
89	Changsha County	2010	0.0	0	0
90	Zhuzhou County	2010	0.0	0	0
Other project					
	Shanghai (CNG)	2002	0.0	0	0
	Shanghai (LPG)	2007	0.0	0	0
	Shanghai (DME)	2007	0.0	0	0
	Other gas refuelling station projects		0.0	0	0
Total			**16340.3**	**100**	**23970**

Notes:

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

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

Accumulated number of piped gas (including natural gas) customers			
Residential households	Commercial/ industrial customers	Installed designed daily capacity for commercial/ industrial customers (m^3)	Number of vehicle gas refuelling stations
152549	740	469571	5
104418	458	463211	5
47954	189	112294	0
143693	306	140713	4
0	0	0	0
25412	130	120835	0
113160	204	785586	2
40326	294	83557	0
56670	100	89804	0
135033	274	293812	4
0	1	12000	0
297135	545	817152	6
24653	136	23705	0
118435	262	330058	6
25354	77	164173	0
29050	297	175582	0
42268	136	64670	1
116480	484	271609	2
131186	267	315301	4
24414	149	128109	0
68916	286	337332	2
64186	145	43607	3
81795	131	119566	2
175300	523	336477	6
24050	112	25167	0
24852	104	30452	2
32458	144	181178	0
44065	140	100561	0
539265	727	732903	19
54736	186	125039	2
10019	43	19627	0
120499	1270	1152684	6
37000	155	60663	0
10412	36	72836	0
606	0	0	0
160935	642	259156	5
184276	1261	1274853	11
160283	410	342155	4
652381	1518	1753334	9
172372	822	217764	2
64828	190	274402	1
323500	1122	1192579	3
52606	75	140261	1
63224	90	29248	2
78581	69	41297	1
57915	166	149784	2
53579	255	261075	3
16010	7	8511	0
54887	182	19645	2
30834	111	99464	0
18040	73	30870	0
26172	65	25102	0
9658	101	107305	0
779	22	122665	0
164351	564	876296	3
24661	139	99181	2
101702	207	188398	0
951	15	120570	1
4135	28	186270	1
7646	53	33895	0
6140	82	179387	0
16736	224	1385099	1
8899	41	50498	0
74896	278	90933	0
16142	61	16781	0
2808	6	30160	0
867	182	179750	0
0	1	5000	0
16165	48	43590	0
0	0	0	0
34189	10	798	0
0	10	25700	0
0	0	0	0
0	0	0	0
0	0	0	0
2352	2	5150	0
2247	3	11300	0
0	5	12600	0
0	0	0	0
36487	233	84500	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	2
0	0	0	28
0	0	0	1
0	0	0	26
5618583	**18424**	**18175160**	**192**

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

Operational and Financial Summary

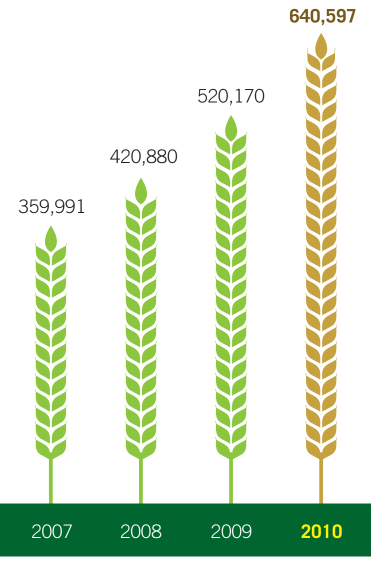
Operational

Accumulated Number of Gas Connections Made to Residential Households

Number of households

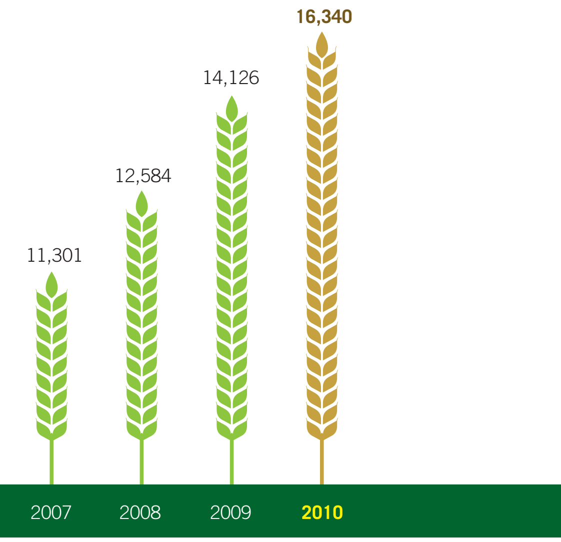
Units of Piped Gas Sold to Residential Households

'000m^3



Length of Existing Intermediate Pipelines and Main Pipelines

km



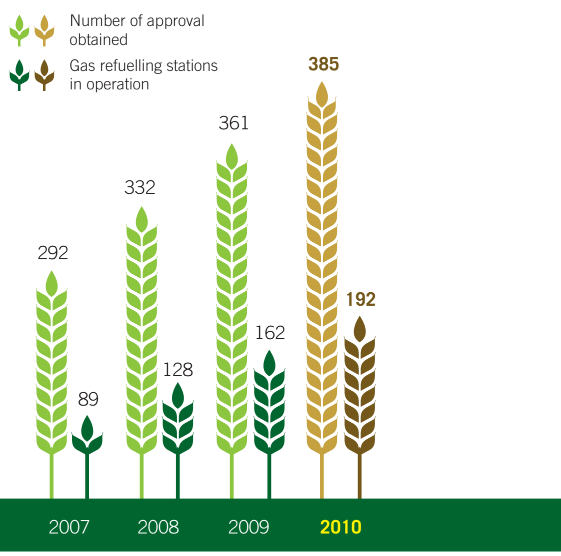
Accumulated Installed Designed Daily Capacity for Commercial/Industrial Customers

m^3

Units of Piped Gas Sold to Commercial/Industrial Customers

'000m^3

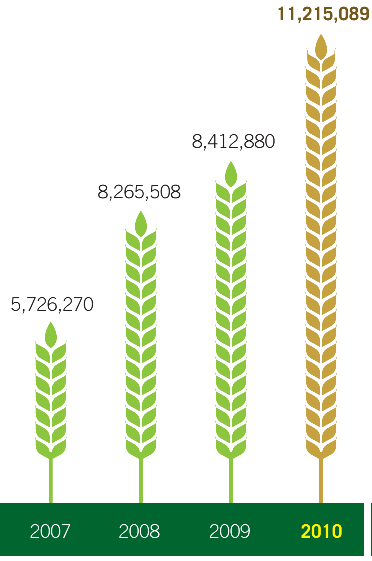
Number of Vehicle Gas Refuelling Stations



Financial

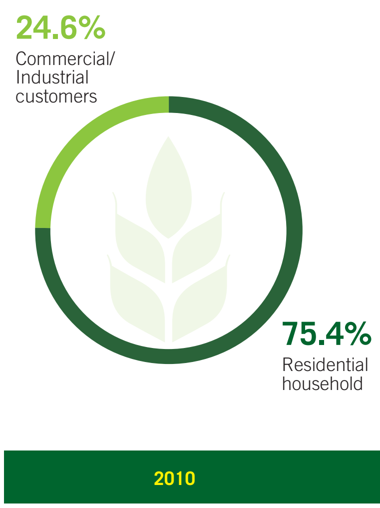
Revenue

RMB'000

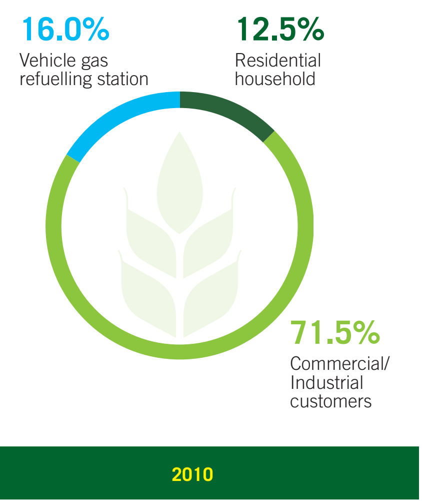


Revenue Breakdown by Customer

Connection Fees

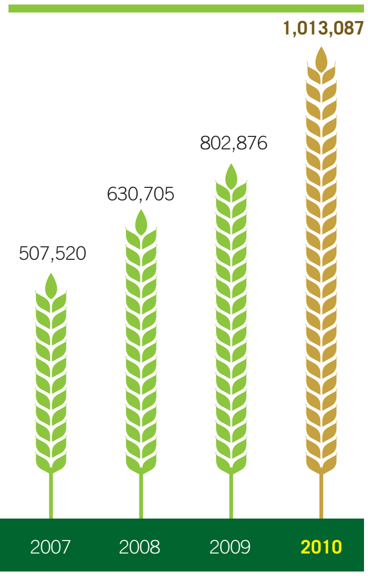


Sales of Gas

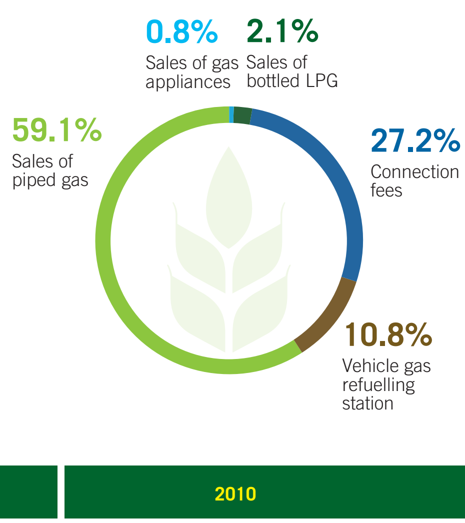


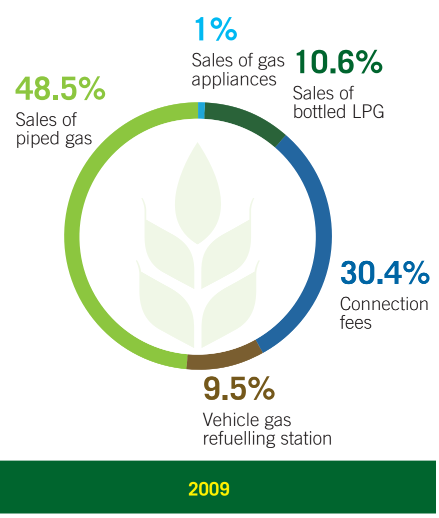
Profit for the Year Attributable to Owners of the Company

RMB'000



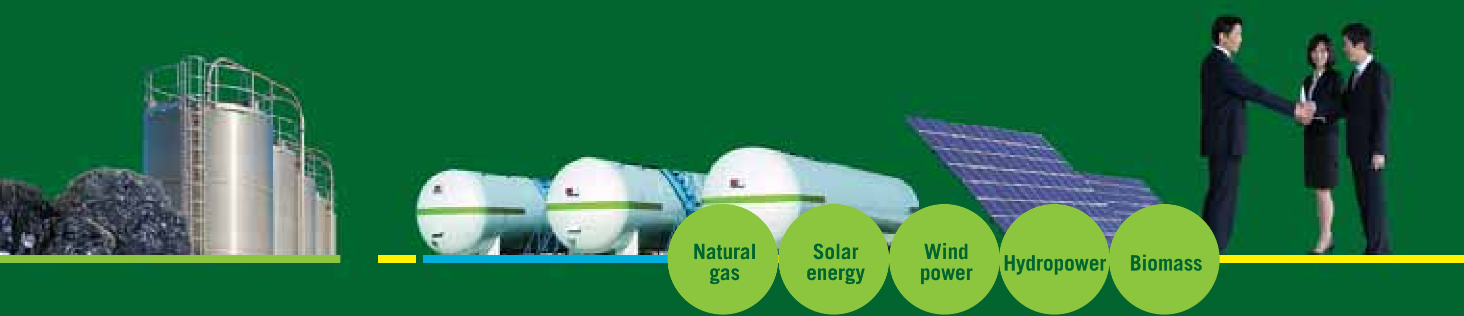
Revenue Breakdown by Segment





CLEAN DEVELOPMENT

During the period of the 12th Five-Year Plan, the principal missions of energy development in China are: adopting effective measures to save energy and improving the utilisation level of traditional energy in a clean manner; increasing the scale of using clean energy such as natural gas; accelerating the promotion of development of hydropower and nuclear power infrastructure; positively monitoring the conversion and use of wind power, solar energy, biomass and other forms of renewable energy, and vigorously promoting the utilisation and refinement of energy structure; coordinating and planning for a key energy base and a cross-regional energy transmission channel, and encouraging optimal allocation of energy resources.



It is expected that, by 2015, the share of natural gas in primary energy will increase from 3.9% to 8.3% and the CARG of natural gas consumption is 19.9%.

The Chinese government pledged to the world:
by 2020, the emission of carbon dioxide per unit of GDP will be reduced by 40%-45% as compared to 2005.

Comparison of Ten-Year Results

	2010	2009 (Restated)	2008 (Restated)	2007
Highlights (Group)				
Number of connected households (Piped Gas)	**5,618,583**	4,706,663	3,745,145	3,167,800
Installed designed daily capacity for commercial/industrial customers (m^3) (Piped Gas)	**18,175,160**	13,486,437	9,518,438	7,594,338
Units of piped gas sold				
Residential households (m^3)	**640,597,000**	520,170,000	420,880,000	359,991,000
Commercial/industrial customers (m^3)	**3,508,759,000**	2,419,662,000	2,150,978,000	1,777,497,000
Length of existing pipelines(1) (km)	**16,340**	14,126	12,584	11,301
Number of existing natural gas processing stations	**100**	94	90	83
Daily capacity of existing natural gas processing stations (m^3)	**23,970,000**	14,638,000	14,378,000	14,149,000
Revenue & Profit (RMB'000)				
Revenue	**11,215,089**	8,412,880	8,265,508	5,756,270
Profit before taxation	**1,810,965**	1,383,358	1,130,679	814,517
Income tax expense	**(409,800)**	(304,459)	(259,955)	(108,373)
Profit for the year	**1,401,165**	1,078,899	870,724	706,144
Non-controlling interests	**(388,078)**	(276,023)	(240,019)	(198,624)
Profit for the year attributable to owners of the Company	**1,013,087**	802,876	630,705	507,520
Dividends	**303,913**	200,158	157,676	126,880
Assets & Liabilities (RMB'000)				
Non-current assets	**12,711,953**	10,541,637	9,137,570	8,176,070
Associates	**487,683**	323,880	292,483	386,111
Jointly controlled entities	**1,361,265**	1,015,641	757,620	483,672
Current assets	**5,078,648**	4,753,798	4,353,973	3,504,285
Current liabilities	**(7,488,474)**	(5,364,038)	(5,428,280)	(3,957,481)
Non-current liabilities	**(4,611,224)**	(4,844,376)	(3,696,940)	(3,931,999)
Net assets	**7,539,851**	6,426,542	5,416,426	4,660,658
Capital & Reserves (RMB'000)				
Share capital	**109,879**	109,879	106,318	106,318
Reserves	**5,921,570**	5,006,792	4,128,347	3,629,229
Equity attributable to owners of the Company	**6,031,449**	5,116,671	4,234,665	3,735,547
Non-controlling interests	**1,508,402**	1,309,871	1,181,761	925,111
	7,539,851	6,426,542	5,416,426	4,660,658
Earnings per share–basic	**96.5 cents**	77.7 cents	62.5 cents	51.3 cents

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

	2006 (Restated)	2005	2004	2003	2002	2001
	2,458,735	1,793,216	970,339	650,411	210,850	108,001
	5,023,652	2,495,479	1,250,873	631,493	365,113	269,747
	299,806,000	198,488,000	104,912,000	44,967,000	19,123,000	14,089,000
	1,027,939,000	273,051,000	142,798,000	71,626,000	30,407,000	20,496,000
	9,234	7,268	4,871	1,958	791	464
	74	64	51	35	25	12
	13,563,000	8,786,000	7,493,000	4,709,000	3,178,000	837,800
	3,396,536	2,056,826	1,439,945	878,055	544,492	240,560
	533,632	400,540	313,108	199,242	156,058	99,598
	(49,772)	(38,343)	(9,196)	(2,957)	(12,324)	(11,081)
	483,860	362,197	303,912	196,285	143,734	88,517
	(104,243)	(91,648)	(53,264)	(13,195)	(15,818)	(9,250)
	379,617	270,549	250,648	183,090	127,916	79,267
	75,923	45,440	25,254	–	–	–
	6,329,211	4,390,976	3,013,077	2,104,824	925,307	415,824
	340,173	76,571	61,025	10,394	–	–
	295,530	235,432	170,499	22,105	2,500	–
	3,070,092	2,851,725	1,608,829	960,602	842,558	307,481
	(2,699,439)	(1,683,310)	(1,261,830)	(1,032,785)	(456,841)	(201,195)
	(3,467,139)	(3,112,245)	(1,230,748)	(587,594)	(276,030)	(51,945)
	3,868,428	2,759,149	2,360,852	1,477,546	1,037,494	470,165
	102,825	95,819	91,954	78,122	78,122	66,462
	2,953,835	2,135,667	1,830,610	1,059,977	861,355	386,199
	3,056,660	2,231,486	1,922,564	1,138,099	939,477	452,661
	811,768	527,663	438,288	339,447	98,017	17,504
	3,868,428	2,759,149	2,360,852	1,477,546	1,037,494	470,165
	40.5 cents	30.5 cents	29.6 cents	24.8 cents	18.0 cents	14.3 cents

Management Discussion and Analysis

Industry Review

Energy Consumption Pattern in China

Following the continued rapid economic growth in China, its demand for energy is increasing. According to the preliminary estimation of the 2010 Domestic Economy and Social Development Statistics Report of the People's Republic of China, the total energy consumption in 2010 amounted to 3.25 billion tons of standard coal, up 5.9% over last year. The consumption of coal, crude oil, natural gas and electric power grew by 5.3%, 12.9%, 18.2% and 13.1% respectively over last year. The national energy consumption per unit of gross domestic product in ten-thousand dollars decreased by 4.01%.

In the current primary energy consumption pattern in China, coal and petroleum account for 69% and 20% respectively while natural gas only accounts for 3.9%. New energy like hydropower, wind power and nuclear power merely accounts for 7% in total. Currently, the environment of China cannot afford the pollution caused by the existing energy structure by far, and it is among one of the nations which tops the list in respect of emission volume of carbon dioxide and sulphur dioxide. Coal still remains a major component in the total energy consumption in China, and a large part of the demand for petroleum has to be satisfied by foreign supply. Over 80% of electric power is generated by coal. The coal-based energy structure has heightened the energy demand and the pressure on the environment, and the energy consumption pattern should be optimised in a short period to promote the development and use of natural gas, nuclear power, solar energy, wind power and other kinds of new energy. This does not only save energy and reduce emission, but is also the strategy for China to achieve sustainable economic development. In terms of energy saving and emission reduction, the coal-based energy structure poses the biggest challenge to China. The Chinese government indicated that it would further promote the optimisation and adjustment of the energy structure under the 12th Five-Year Plan, and expected the share of natural gas in primary energy consumption to raise from the current 3.9% to 8.3% , while the share of hydropower and nuclear power, and other kinds of new energy such as solar energy, wind power and biomass energy was expected to grow by 1.5% and 1.8% respectively by 2015. The share of coal in primary energy consumption should drop from the current 69% to 63% by then. By 2020, China will gradually reduce its over-dependence on coal.

In 2010, the consumption level of natural gas in China exceeded **100 billion** cubic meters for the first time, reaching **104.8 billion** cubic meters.

By 2015, the consumption level of natural gas in China is expected to exceed **260 billion** cubic meters.

In 2009, the Chinese government pledged to reduce the emission of carbon dioxide per unit of gross domestic product by 40-45% by 2020 as compared to 2005. Currently, China is taking various measures to ensure the fulfillment of this goal by 2020. At the Copenhagen Climate Change Conference, the international community reached the consensus of developing a low-carbon economy. Natural gas, a clean and efficient fossil fuel, is the bridge in the transition to new energy as well as one of the pillars of low-carbon economy. It is estimated that the carbon dioxide emission of natural gas is 41% and 28% lower than that of coal and oil respectively. Extensive development and use of natural gas will be a realistic option for countries in response to global warming and an important strategy for maintaining the energy safety of a nation and enhancing its international competitiveness.

In 2010, the unit of gas sold by the Group reach

4,149,356,000

cubic meters

During the period of the 12th Five-year Plan, the Chinese government will put extra efforts in developing natural gas and increasing the share of electric power generated by natural gas. To cope with the growing demand for natural gas, the Chinese government invested heavily in natural gas infrastructure. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline I and II, Shaanxi-Beijing Pipeline I, II and III, Zhong-Wu Pipeline, Sebei-Xining-Lanzhou Pipeline, Sichuan-East Pipeline, as well as two branch pipelines named Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. According to the plan of the Chinese government, 17 natural gas pipeline projects including the West-East Pipeline III and IV and China-Myanmar Oil and Gas Pipeline will be completed and launched in the coming years. At the same time, more and more import LNG terminals will be built along the coast. The real "network era" for the natural gas industry will begin by then. On the other hand, although the consumption of natural gas is rising rapidly given the overwhelming demand, the gas reserve and facilities for peak time usage adjustments are still very insufficient. To ensure a stable natural gas supply, the Chinese government started to plan and construct a dozen natural gas storage facilities to enhance the peak time usage adjustments in winter. The construction of four storage facilities has been started and is expecting to be put into operation in 2012. In the future, the natural gas reserve is expected to account for 20% to 25% of the demand.

In light of the rapid industrialisation and urbanization of China, its urbanisation ratio is expected to increase from the current 43% to 55%-60% by 2020. Natural gas will gradually become the major fuel in the urban gas market, presenting considerable potential for the sustainable development of urban gas projects and bright market prospects.

China's policies on city piped natural gas market

As the Chinese government attaches higher importance to environmental protection and utilisation efficiency of energy, more policies encouraging the use of clean energy and optimisation of energy structure have been promulgated.

With a view to relieving the imbalanced demand and supply position of natural gas, improving the natural gas consumption pattern, and facilitating energy saving and emission reduction, the Chinese government has announced the Natural Gas Utilising Policy in 2007, which requires the state policy on natural gas utilisation to be formulated by the government in order to ensure priority in using natural gas in cities. This also helps facilitate the scientific use and orderly development of natural gas, thereby enhancing the utilisation efficiency of energy resources.

Meanwhile, in order to promote the development of circular economy, enhance the utilisation efficiency of energy resources, protect and improve the environment and achieve sustainable development, the Chinese government has promulgated the Circular Economy Promotion Law of the People's Republic of China ("Circular Economy Promotion Law") on 29 August 2008. The following is specifically regulated in the Circular Economy Promotion Law which came into effect on 1 January 2009: "the state encourages and supports enterprises to use highly efficient and oil-saving products. Enterprises in industries such 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".

In addition, the Chinese government issued the Opinions of State Council on Encouraging and Guiding Healthy Development of Private Investment ("Opinions") on 7 May 2010 to "encourage private investments in construction of petroleum and natural gas infrastructure; support private investments in petroleum and natural gas exploration and development, and cooperation with state-owned oil enterprises in petroleum and natural gas exploration and development; support private investments in the construction of storage, transportation and pipeline facilities and networks of crude oil, natural gas and refined oil." It further "encouraged private investments in the construction of public utilities; supported private investments in fields of urban water supply, gas supply, heating, sewage and waste treatment, public transportation and urban greening; and encouraged private investments in the reorganisation and reform of public utilities units. Eligible public utilities projects may be operated under the marketised mode and the ownership or operation rights may be transferred to private investments."

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 the development of the natural gas industry.

Business Review

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

Gas Connection

During the year, the Group continued to focus on boosting connection in existing gas projects, resulting in sustained increases in the overall connection rate every year. As a result, the revenue generated from consistently stable gas sales has become the major source of revenue of the Group.

As of 31 December 2010, the gas penetration rate for residential households of the Group's projects in China increased from 32.4% at the end of 2009 to 36.0%. With the continuous rapid growth in the number of users, the share of gas sales in the Group's overall revenue is on the rise. The Group believes that this optimised revenue structure will secure the long-term stable revenue of the Group.

As of the end of 2010, the accumulated length of intermediate and main pipelines constructed by the Group was 16,340 km, and the number of existing natural gas processing stations reached 100. With daily natural gas supply capacity of 23,970,000 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 875,744 residential households, up 11.1% as compared with the number of new connections recorded last year. The Group's strong ability in marketing the new natural gas connections in new and existing residential buildings during the year is the catalyst for new connections over targets. As of the end of 2010, the aggregate number of piped natural gas residential households in the Group's projects amounted to 5,419,826. If other types of piped gas residential households were included, the total number of connected piped gas residential households reached 5,618,583. Supported by the Group's 11 new project cities as well as the level of urbanisation and organic growth in population coverage in its existing project cities, the urban population coverage of the Group has grown to 46,868,000 as at the year end. According to past experience in the industry, the gas penetration rate of residential households could reach over 80% in each city, while the current gas penetration rate of the Group is only 36.0%. As such, the future development in the residential households market still has huge potential. The continual and substantial growth in the number of connected residential households each year fully demonstrated the Group's strong execution ability. During the year, the average one-off connection fee collected by the Group from its residential households was RMB2,854.

As the Chinese government has paid more attention to environmental protection and more efforts in optimising the energy structure, the explicit advantages of natural gas comparing with other forms of energy in terms of cleanliness, economic benefits, safety, convenience and environmental protection have become more obvious. On the other hand, since the series of policies introduced by the central government of China ensuring the priority in use of natural gas by residential households under all circumstances has guaranteed stability and reliability in use of gas, natural gas has gained higher popularity among governments and consumers, and has become their first preference for activities such as cooking, boiling water and bathing. Also, driven by the year-by-year growth in natural gas supply and the phased completion and operation of long distance pipelines covering the whole country, gas sources have been further secured. Given the Group's capability in raising the gas penetration rate of its projects, all these factors encouraged connection of piped natural gas in new and existing buildings and stimulate the stable yearly growth in the gas penetration rate of the Group.

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

During the year, the Group provided natural gas connections for 4,178 commercial/industrial customers (connected to gas appliances with total installed designed daily capacity of 4,619,944 cubic meters) and the average connection fee was RMB177 per standard cubic meter. As of the end of 2010, the aggregate number of piped natural gas C/I customers covered by the Group's projects amounted to 17,767 (connected to gas appliances with total installed designed daily capacity of 17,649,198 cubic meters). If the users of other types of piped gas C/I customers were included, the total number of connected piped gas C/I customers reached 18,424 (connected to gas appliances with total installed designed daily capacity of 18,175,160 cubic meters).

The Circular Economy Promotion Law promulgated by the Chinese government in 2009 expressly stipulated that critical industrial customers with high energy consumption must abandon and replace the use of polluting energy (e.g. petroleum) with clean energy (e.g. natural gas). It also required the adequate utilisation of solar energy and wind power in the architectural design, building and construction processes. Moreover, developing low-carbon economy has already become a global consensus for different countries in the world to achieve sustainable growth. The Chinese government has also kept on promoting the advantages of energy saving and emission reduction. Limitation on use of electricity was even imposed to meet the target of energy saving and emission reduction, which affected the normal operation of some enterprises. In formulating long-term development plans for energy resources, vigorous promotion of the use of natural gas, a clean and efficient source of energy, is one of the best options for building a low-carbon economy and achieving the goal of energy saving and emission reduction.

New Projects

During the year, the Group secured 11 new projects in China, including Huadu District in Guangzhou, Fengkai County, Luoding City, Huaiji County, Guangning County, Xinyi City and Lianzhou City in Guangdong Province, Huaihua City, Changsha County and Zhuzhou County in Hunan Province, and Wenshan City in Yunnan Province, thus increasing the number of gas project cities to 90. The connectable population also grew to 46,868,000 (approximately 15,623,000 households). Among the projects secured during the year, the economic development of Huadu District in Guangzhou, Guangdong well surpasses the national average level, with automobile, port and jewelry as the pillar industries. The other 6 projects in Guangdong Province are also located in areas with a high level of industrial and commercial development, in particular industries facilitating the development of natural gas, including electronics, textile, chemical, mineral processing, paper-making and mechanical processing. The pillar industries of Huaihua City in Hunan Province include medical and pharmaceutical, chemical and food processing industries, which allow the Group to expand the scope of gas sales. As our existing Changsha and Zhuzhou projects are in close proximity to Changsha and Zhuzhou Counties in Hunan Province, the Group could fully utilise its existing resources to supply natural gas to these projects at low costs. The Wenshan project was the Group's first project in Yunnan Province and the city has relatively well-developed medical and pharmaceutical, tobacco and agricultural product processing industries. The construction of the Myanmar-Yunnan natural gas pipeline has commenced and is expecting to be completed in 2012. This will support the long-term gas supply to Yunnan Province and the acquisition of the Yunnan project would be favourable to the further expansion of the Group's business in that province.

In the meantime, the Group cooperated with The Vietnam Oil and Gas Group (PetroVietnam) during the year and established a joint venture. The group is the largest shareholder of the joint venture by acquiring 43.89% of its equity interest through equity investment, and the joint venture will develop piped gas and vehicle gas refuelling businesses in Vietnam. At the initial stage, the Group will first begin operation in Hanoi, Ho Chi Minh and Da Nang, which are the most economically developed cities of Vietnam and have huge demand for gas. These three cities have a total connectable population of 8,920,000. Being an emerging market without any natural gas pipeline operation itself, Vietnam demonstrates a huge development potential and considerable growth rate. Such cooperation represented the first step of our international business. In late 2010, the joint venture went public on the Vietnam Stock Exchange, creating a smooth financing channel for the project and supporting its long-term development.

Sales of piped gas

During the year, the Group's total sales volume of piped gas was 4,149,356,000 cubic meters, up 41.1% when compared with last year, of which 3,807,605,000 cubic meters was contributed by sales of natural gas, representing a year-on-year increase of 44.7%. The proportion of piped gas sold to residential households, C/I customers and vehicle customers amounted to 15.4%, 72.1% and 12.5% respectively, representing an increase of 23.2%, 47.1% and 34.0% 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, making revenue from gas sales the major source of income of the Group. The percentage of revenue from gas sales over total revenue significantly increased from 68.6% last year to 72.0%, showing that the Group has now possessed a more stable and long-term revenue base and has reduced its reliance on one-off connection fees, therefore improving and optimising its revenue structure. Given that the overall gas penetration rate of residential households remains at a rather low level of 36.0%, the Group will continue to boost the gas penetration rate of residential households. On the other hand, the consistent growth in China's economy and the stringent execution of the government's energy saving and emission reduction policies also create more potential C/I customers for new connections while the development of environmentally friendly vehicles in China will be able to bring along more opportunities for building natural gas vehicle refuelling stations. It is expected that the share of gas sales in total revenue of the Group will further increase and such development will deliver long-term and stable cash flow to the Group.

Construction and operation of vehicle gas refuelling stations

During the year, the Group continued to regard vehicle gas refuelling business as one of its core businesses. The number of vehicle gas refuelling stations completed and started operation was 30 during the year, adding to a total of 192 vehicle gas refuelling stations located in 46 cities of the state, among which 12 were not gas project cities of the Group. In addition, as of the end of 2010, the number of vehicle gas refuelling stations which have obtained construction approval from the local governments has accumulated to 385. This year, the Group has completed the conversion of 7,630 taxies and 294 buses into natural gas vehicles, adding to a total number of 31,031 taxies and 1,385 buses using natural gas. The proportion of vehicle gas sales over the total volume of gas sales was 12.5%.

Gas emission from vehicles is one of the major causes of pollution, especially in densely populated area and area which is 3 meters above the ground level and has human activities. Hence, 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 and environmental friendliness of clean energy such as natural gas and dimethyl ether as compared to vehicle-use gasoline and diesel has given immense momentum to the growth of the promising vehicle refuelling station business. In 2011, the Group will fully utilise its existing resources and network to expand the vehicle/ship-use LNG business which has even brighter prospects, allowing the Group to make significant contribution to both environmental protection and its profitability.

Gas source

Following the robust development of the natural gas industry in China, the relevant infrastructure has been developed at an unprecedented scale and the supply capacity is rising year by year. In 2010, the total consumption of natural gas in China exceeded 100 billion cubic meters for the first time, reaching 104.8 billion cubic meters and representing a year-on-year increase of 18.2%.

The West-East Pipeline II, Sichuan-East Pipeline and Shaanxi-Beijing Pipeline III, which have an annual transportation capacity of 40 billion cubic meters, 12 billion cubic meters and 15 billion cubic meters respectively, started supplying gas during the year. Coupled with the growth in imported natural gas, the growing demand for natural gas has received strong support and the excessive demand has also been greatly relieved. At the moment, the national natural gas pipeline network in China, which is fundamentally formed by the West-East Pipeline I and II, Shaanxi-Beijing Pipeline I, II and III, Zhong-Wu Pipeline, Sichuan-East Pipeline, Sebei-Xining-Lanzhou Pipeline, as well as two branch pipelines named Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. In addition, according to the schedule of the Chinese government, 17 natural gas pipeline projects including West-East Pipeline III and IV and China-Myanmar Oil and Gas Pipeline will be completed and launched one by one in the coming years. Moreover, the Chinese government planned to build a dozen LNG terminals in coastal areas and three have been put into operation. The other two terminals with a capacity of 3.5 million tons and 3 million tons respectively will be completed and put into operation in 2011. This further ensures that all piped gas projects of the Group will be able to enjoy stable supply of piped gas in the long run. Meanwhile, China will put extra efforts in developing and producing unconventional natural gas (including coalbed methane, shale gas and coal gas). By 2015, the volume of unconventional natural gas is expected to exceed 50 billion cubic meters, further guaranteeing the domestic supply of natural gas. In general, piped gas projects of the Group are covered by guaranteed gas supply contracts with upstream suppliers. With a stable source of gas, the Group is therefore able to attract new customers.

Apart from fully utilising such extensive gas pipeline network and LNG terminals, the Group has also endeavored to search for other sources of energy supply. The operation of LNG processing plants built by the Group in Beihai, Yinchuan and Jincheng is satisfactory, with an annual production capacity of 400 million cubic meters in aggregate. On the other hand, the construction of phase II of the Jincheng project will be commenced in 2011 and it is expected to start operation in late 2011. This will further increase the aggregate annual production capacity of LNG processing plants to 470 million cubic meters and create new gas sources for the Group. Moreover, the Group 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, allowing the Group to secure more stable gas supply and enjoy a higher degree of protection on gas sources.

Advanced collection system for gas usage charges

The Group continues to adopt the prepaid stored-card system for all projects. Under the system, every newly-connected residential household will receive a stored-value card and is required to prepay for the gas. This system can eliminate the possibility of bad debts completely and save huge administrative expenses, thus enhancing the Group's cash flow. Meanwhile, by fully utilising the informatisation program jointly developed with IBM China Company Limited ("IBM"), the Group succeeded in introducing various functions, such as the auto-accounting of connection fee charged to customers, payment to personal accounts, and printing and integration of financial vouchers.

On the other hand, some of the Group's project companies have been cooperating with local banks, convenience stores and supermarkets for the collection of gas usage charges. Collecting gas usage charges through the widespread network resources of banks and retail outlets has satisfactory results as it offers great convenience to customers.

Sales of bottled LPG

During the year, the Group sold 47,919 tons of LPG (2009: 357,364 tons), decreased by 86.6% over last year.

As the Group reduced the bottled LPG business that carries low gross profit margin, more resources can be allocated to piped gas projects. As a result, both the operational efficiency and returns to shareholders can be further enhanced.

Sales of gas appliances

In addition to offering piped gas connection services to our customers, the Group also continues to sell cooking stoves, water boilers, heaters and stored-value card gas meters. The Group operates its own production plant of stored-value card gas meters and the products are manufactured for internal use in the Group's connection business as well as sold to other gas distributors. It can lower the cost of connection, ensure collection of gas usage charges and generate additional revenue for the Group at the same time.

Gross and net profit margins

During the year, the Group's overall gross and net profit margins were 26.9% and 12.5% respectively, representing that the gross profit margins has dropped by 3.3% as compared with last year, while the net profit margins remained at a similar level as last year.

The decrease in gross profit margins was mainly caused by the continuous change in the Group's revenue structure, i.e. the gradual decline of connection fee income over total revenue from 30.4% last year to 27.2%. Since the profit margins of connection fee income is substantially higher than that of piped gas sales, the shrink of the share of connection fee income in total revenue would then result in the decrease in the gross profit margins. On the other hand, in order to attract more major customers with heavy gas consumption (i.e. C/I customers) to use natural gas, the Group continues to offer them with discounts on connection fee charges which also attributed to the decrease in the overall profit margins of connection fee. During 2010, the Chinese government has announced its decision to raise the wellhead price of natural gas. As it takes time for the Group to transfer the increase in price to end users, such time difference caused the profit margins of gas sales to decline which in turn attributed partially to the decrease in the overall profit margins of the Group. Furthermore, during the year, the Group continued its strategy to substantially reduce the bottled LPG business which generates substantially lower profits. As a result, the sales of LPG decreased by 73.2% during the year and it helped increase the overall gross profit margins of the Group.

Advanced safety operation management system

The Group always regards safe operation as its top priority and continued to maintain a good record of safe operation this year. Under the health, safety and environmental management system established by the Group, standardised management was applied to all production activities. Through encouraging employees to become "safety-conscious employees", both their skills and awareness on ensuring safety were greatly enhanced. The Group also fostered innovation of safety technology and promoted the application of safety equipment and technology, so that the foundation of safety operation was further strengthened. On the other hand, the Group launched the "year of safe operation" during the year and continued to promote the "3-No Campaign" (no accidents, no personal injuries and no harmful acts to the environment) and executed various controlling measures, ensuring the safe operation of the Group and setting a role model in the industry for running a standardised and modern management system of safe operation.

Meanwhile, for the purpose of promoting safe operation in the Group, improving the professional qualifications and expertise of employees, providing better customer services and supporting the rapid development of the Group's gas supply facilities and customer base, the Group developed 3 levels of capability (i.e. junior, middle and senior) for 4 job positions, namely workers for construction of gas sites, pipeline paving, on-site installation and maintenance of equipments, as well as gas sales representatives, in 2009. The capability recognition program was implemented in 8 group companies on a trial basis in 2009 and was introduced to another 51 group companies during the year. This year, 4,247 employees attained junior and medium levels, adding to a total of 4,592 employees. In 2011, the Group will continue to offer more professional training to help more employees achieve a higher level of capability, ensuring the safe operation of the Group.

Excellent management

During the year, the informatisation program jointly developed by the Group and IBM made good progress and was implemented in group companies according to the schedule. Core application systems like Enterprise Resources Planning (ERP) and Customer Care Service (CCS) for were launched in 30 group companies, document circulation platform was implemented in 61 group companies, Customer Care Management (CRM) system was set up in 6 group companies while Plant Maintenance (PM) and Health, Safety and Environment (HSE) systems were launched in 4 group companies. As of the end of 2010, the Group has developed online business systems for a total of 153 group companies, enabling them to process over 90% of business through the information system and leading to a significant enhancement in the operational efficiency. As such, an information system for the purpose of strategic performance was built during the year, realising the real-time online integration of different

categories of business figures such that various categories of business figures and the corresponding analysis reports are accessible by the management at anytime. Moreover, to enhance the cost effectiveness and promote operation excellence, the Group combined the activity-based costing management tools with information system and achieved satisfactory results. It also enabled performance review meetings to be conducted online with access to real-time figures. As a result, the benefit of high efficiency brought by informatisation has established a strong foundation to support the decisions of the Group.

During the year, with the continued use of refined management tools such as the balanced scorecard, strategies of the Group were passed on from upper levels to lower levels, and each employee was required to submit action plans according to the strategy of the organisation such employee works in. Appraisals would also be done on the actual results of the work compared with the employee's own action plan. This guaranteed consistency of goals between organisation level and individual level, ensured speedy conveying and effective implementation of the Group's strategies, and also greatly enhanced the capability of staff.

Besides, to further enhance the management efficiency and ensure standardised, efficient and safe operation of various group companies, the Group introduced a comprehensive authorisation system this year to clarify and determine the authority of each level of management and specify the duties of the management, realising differentiated authorisation. It defined 352 management approval processes, guided 70 group companies through the internalisation of management authorisation system, solidified the document circulation platform and enhanced the execution results of the authorisation system.

During the year, the Group initiated active risk management and put extra efforts in monitoring and predicting risks, and identifying, tracking and handling of material risks. It also enhanced the risk aversion capability of group companies, promoted the risk management model to 50 group companies, conducted research on material risks, initiated communication on corresponding strategy, helped group companies improve their operational risk control, as well as incorporated key material risks in the performance appraisal at company level so as to facilitate implementation and improvement.

Customer service

It is always the Group's belief that quality customer service is the key for maintaining good and long term relationships between the Company and customers and the bedrock for the Group's sustainable business development. During the year, apart from the consistent use of informatisation program to provide rapid and efficient services to customers, the Group also commenced a "three-year service campaign" for 2010, 2011 and 2012 to further enhance the service quality. During the year, the Group improved the infrastructure of customer service and raised the customer service awareness of its people to develop an all-round, full-flow, one-stop and personalised service model. The Group also prepared and published the service system manual, initiated promotion and implementation plans, internalised the system for group companies and conducted assessment and verification. By setting up an integrated service standard evaluation model, the Group modified the customer complaint and service feedback system, and carried out satisfaction survey and mystery shopper assessment. The establishment of both the monitoring and evaluation systems made new progress. Moreover, on top of the national customer service centres, service support centres, service supervision centres and national call centres set up in 2009, the Group planned to set up 7 regional call centres, of which 4 have already been completed while the rest will be completed by 2012. With the call centre management model complying with the International Customer Operations Performance Centre (COPC) standards developed and put in place, the professional management level and service capability of the Group were significantly enhanced.

During the year, companies within the Group continued to acquire recognition and compliments from customers and government authorities in the cities they operated for their quality customer services, and a number of group companies have obtained awards like "Units with High Consumer Satisfaction" from the local consumer councils for several consecutive years. Furthermore, certain outstanding employees received the titles "Pioneers of Work Labors in National Transport and Construction System", "Municipal May 1 Labour Medalist" and "Model Labor in the Municipality" in recognition of their excellent performance in customer service.

All group companies are required to visit customers for safety checks on their 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 strengthen their confidence in our services.

Customised considerate services not only won us wide recognition from our customers but also more opportunities for further development.

Human Resources

The Group always regards its staff as its most valuable assets. We believe that consistently maintaining employees' passion and enthusiasm is the key to our advancement, and that the staff could provide satisfactory service to customers only if they are offered the opportunity of healthy development. It is also our faith that talents are the source of our competitiveness and the critical factor for continued success and future development. Hence, the Group has always attached importance to talent cultivation and recruitment.

As usual, the Group provided newly recruited staff with induction training, learning opportunity as well as heart-warming care in daily lives. All these measures enable new members to master the business operation of the Group and understand the corporate culture.

In order to maintain our sustainable rapid growth and build a young management team who deeply recognises the corporate culture and supports the strategic development of the Group, during the year we have preliminarily established a distinctive training system for young management. A group of outstanding young members would be selected systematically every year to be the future leaders. During the year, the Group selected 27 young employees to complete 5 related special training modules. We also formulated and implemented a young management training program and 896 young leaders were selected.

Following the rapid growth and accelerated internationalisation of the Group, a more stringent standard has been set on the capability and qualification of staff. To enhance the capability and quality of the team, management's appraisal was linked with their performance in team building and talent cultivation. Also, in order to cultivate talents who are responsive to changing situations and versatile, certain employees were shortlisted by the Group to pursue further study and receive training in famous colleges in China or overseas. A master's program in engineering was also introduced with Shanghai Tongji University, Chongqing University and Shandong University of Science and Technology as the training bases. The first 36 participants were selected and already commenced the course, while another 57 participants have been selected. The Group also promoted the "competency grading system for staff at the basic level" to widen the career paths of staff at lower levels.

During the year, the Group continued to adopt different approaches, such as establishment of capability enhancement system, talent test and development, training and certification programs hosted by internal instructors, as well as training and development programs for senior management. All these aim 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.

As at 31 December 2010, the Group had 19,111 employees, of which 11 were based in Hong Kong while others were based in Mainland China. They were remunerated at market level with benefits that include bonus, retirement benefits, professional training and share option scheme.

Financial Resources Review

Liquidity and financial resources

As at 31 December 2010, the Group's cash on hand was equivalent to RMB2,851,300,000 (31 December 2009: RMB2,712,661,000), and its total debts was equivalent to RMB6,262,913,000 (31 December 2009: RMB5,884,509,000). Its net gearing ratio, i.e. the ratio of net debt to equity (including non-controlling interests), was 45.2% (31 December 2009: 49.4%).

Seven-year 7.375% fixed rate bonds

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

As all the operations of the Group are in China, if RMB appreciates 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 2010, the Group's total debts amounted to RMB6,262,913,000 (31 December 2009: RMB5,884,509,000), including bank loans and bonds of US$375,000,000 (equivalent to RMB2,474,905,000) and bank loans of HK$13,401,000 (equivalent to RMB11,404,000). Apart from the US$200,000,000 bonds and RMB800,000,000 short-term debenture which bear interest at fixed coupons and other US dollar loans and HK dollar mortgage loans bear interest at floating rates, the remaining bank and other loans 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 RMB1,431,858,000 that are secured by assets with an carrying amount equivalent to RMB48,861,000, all of the other loans are unsecured. Short-term loans amounted equivalent to RMB2,379,349,000 while the remaining were long-term loans falling due after one year or above.

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

POWERING A PROSPEROUS FUTURE

While environmental issue has gained global concern, low carbon economy, which has a low-pollution, low-emission and low-energy consumption nature, has become a consensus worldwide, and the adoption of clean energy is an inexorable option for developing low carbon economy.

Through the smart use of all existing kinds of energy and wisdom, we strive to enhance people's living quality and power a better future with the use of clean energy. Come and join us.

Directors and Senior Management

From left to right:

WANG Yusuo
CHEUNG Yip Sang


ZHAO Jinfeng
YU Jianchao


CHENG Chak Ngok
LIANG Zhiwei


ZHAI Xiaoqin
ZHAO Shengli
WANG Dongzhi



Correct strategic decisions and excellent execution ability guide our business towards a more splendid future.

Executive Directors

Mr. WANG Yusuo, aged 47, 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 24 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 standing 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 ENN Group International Investment Limited ("EGII"), 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, now known as CIMC Enric Holdings Limited), 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. CHEUNG Yip Sang, aged 44, is an Executive Director and the Chief Executive Officer of the Company responsible for the daily operation and management and the business expansion of the Group. Mr. Cheung joined the Group in 1998. He graduated from The Chinese People's Armed Police Force Academy in 1990 with a bachelor's degree in Legal Studies 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. He was appointed as the Chief Executive Officer with effect from 31 March 2010.

Mr. ZHAO Jinfeng, aged 43, 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 18 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 42, 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 22 years of experience in accounting and financial management. Mr. Yu is a director and president of EGII, 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, now known as CIMC Enric Holdings Limited), but had resigned from such position with effect from 15 October 2007.

Mr. CHENG Chak Ngok, aged 40, is an Executive Director, the Financial Controller and the Company Secretary of the Company responsible for financial reporting, 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 has also obtained the executive master's degree in business administration from the Peking University in 2009. 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 18 years of experience in accounting, financial management and corporate finance. Mr. Cheng is the vice president and financial controller of EGII, which is a controlling shareholder of the Company.

Mr. LIANG Zhiwei, aged 47, is an Executive Director 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, and has just received the executive master's degree in business administration from the Sino-Europe International Business School. Prior to joining the Group in 1999, Mr. Liang had worked for the China Metallurgical Geology 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 42, is an Executive Director 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 obtained the executive master's degree in business administration from the Sino-Europe International Business School in 2009. 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 14 years' experience in strategic management, risk management and corporate governance.

Mr. ZHAO Shengli, aged 41, is the Executive Director, Chief Operations Officer and General Manager–Hunan, Guangxi and Yunan areas of the Company responsible for assisting the Chief Executive Officer in gas project management and ensuring safe operation of the gas projects. He received a master's degree in business administration from the Tsinghua University in 2000. Prior to joining the Group in 1999, he worked in the China National Nuclear Corporation. Mr. Zhao has extensive experience in corporate governance and market expansion. He was appointed as the Executive Director with effect from 25 March 2011.

Mr. WANG Dongzhi, aged 42, is the Executive Director and Vice President 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 in a Sino-foreign joint venture company. He has extensive experience in financial management and internal control. He was appointed as the Executive Director with effect from 25 March 2011.

Non-executive Directors

Ms. ZHAO Baoju, aged 45, is a cofounder and a Non-Executive Director of the Company. She has over 18 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 EGII, which is a controlling shareholder of the Company. Ms. Zhao is the spouse of Mr. Wang Yusuo and the sister of Mr. Zhao Jinfeng. She was also previously a non-executive director of Enric Energy Equipment Holdings Limited (a Hong Kong listed company, now known as CIMC Enric Holdings Limited), but had resigned from such position with effect from 15 October 2007. Ms. Zhao and Mr. Wang Yusuo jointly control various investment holding companies.

Mr. JIN Yongsheng, aged 47, is a Non-Executive Director of the Company. He graduated from the Tianjin University of Finance and Economics in 1986, specialising in finance, and has obtained an executive master's degree in business administration from the Peking University in 2005. Prior to joining the Group in 1996, he was an assistant professor in the Township and Village Enterprise Cadre College of the Ministry of Agriculture. Mr. Jin is a qualified practicing lawyer in the PRC and has over 21 years of experience in legal practice. Mr. Jin is a director of EGII, which is a controlling shareholder of the Company. He is also a non-executive director of CIMC Enric Holdings Limited (a Hong Kong listed company, previously known as Enric Energy Equipment Holdings Limited).

Independent Non-executive Directors

Mr. WANG Guangtian, aged 47, 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 28 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. He is also an independent non-executive director of China Oil And Gas Group Limited, a Hong Kong listed company.

Ms. YIEN Yu Yu, Catherine, aged 40, is an Independent Non-Executive Director appointed by the Company in 2004. She is currently a director of Rothschild (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 41, 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. HAN Jishen, aged 46, is the Vice President of the Company responsible for assisting the Chief Executive Officer and the Chief Operations Officer in market expansion. 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 18 years of experience in the gas fuel industry in the PRC.

Ms. CAI Fuying, aged 46, is the Vice President of the Company. She joined the Group in 1993 and is responsible for the risk management and administrative affairs of the Company. Prior to joining the Group, Ms. Cai worked in a government authority in China. She graduated from the Hebei Normal College in 1987 and has obtained a master's degree in business administration from the Sino-Europe International Business School in 2009. Ms Cai has extensive experience in corporate risk management.

Mr. LIU Yongxin, aged 48, is the Vice President of the Company mainly responsible for the expansion and management of overseas gas projects. He graduated from Chang'an University in 1987 with a master's degree in vehicle engineering, and obtained a master's degree in finance from the Massey University in New Zealand in 1999. During the year, he was awarded the doctor of philosophy in finance and investment management from the Sun Yat-sen University. 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 18 years' experience in operation, marketing and corporate governance in the energy sector.

Mr. CHEN Fuchao, aged 54, is the Vice President and General Manager–Zhejiang and Shanghai areas of the Company responsible for assisting the Chief Executive Officer and the Chief Operations Officer in project management. He graduated from the School of Mathematics of the Huaiyin Normal University in 1981, and the Nantong Management College in 1987 majoring in industrial economics. He is now studying for an executive master's degree in business administration from the Xiamen University. Prior to joining the Group in January 2004, Mr. Chen worked in the local government of Huaiyin City, Jiangsu Province as the primary person-in-charge of a government department. He has 31 years of experience in corporate management.

Mr. YANG Jun, aged 36, is the Vice President of the Company and the General Manager of the Energy Supply Coordination Centre. Mr. Yang joined the Group in 1992 and is mainly responsible for assisting the Chief Executive Officer and the Chief Operations Officer to ensure steady supply of gas sources and expand new projects. Mr. Yang graduated from the Hebei University of Science and Technology, majoring in business administration. He is now studying for the executive master's degree in business administration at the Antai College of Economics and Management, Shanghai Jiao Tong University. He has extensive experience in the protection of gas sources, market development and corporate management.

Mr. WANG Fengsheng, aged 41, is the Vice President and General Manager–Jiangsu region of the Company. He joined the Group in 1999 and is responsible for assisting the Chief Executive Officer and the Chief Operations Officer in project management. Prior to joining the Group, Mr. Wang had worked in the Baotou Iron & Steel Group. He received an executive master's degree in business administration from the Cheung Kong Graduate School of Business in 2009. He has extensive experience in corporate governance.

Mr. WU Xingjun, aged 46, is the Vice President and General Manager–Henan and Anhui areas of the Company. He joined the Group in 2005 and is responsible for assisting the Chief Executive Officer and the Chief Operations Officer in project management. Mr. Wu graduated from the Xi'an University of Technology in 1987 and received an executive master's degree in business administration from the Peking University in 2005. Before joining the Group, he had worked in Shandong Sacred Sun Power Sources Company Limited and the Yanjing Beer Group. Mr. Wu has extensive experience in corporate governance.

Mr. XU Jinbiao, aged 44, is the Vice President of the Company responsible for information system management. He joined the Group in 2000. He graduated from the China Textile University in 1991 with a bachelor's degree in applied computing, and obtained an executive master's degree in business administration from the Tsinghua University in 2006. Before joining the Group, Mr. Xu had worked in a sizeable state-owned enterprise as the person-in-charge of its information system department. Mr. Xu has wide exposure in the construction of information system in modern corporations.

Mr. LI Shuwang, aged 45, is the Chief Engineer of the Company responsible for the construction of gas engineering. He graduated from the Hebei University of Technology with a bachelor's degree in engineering in 1988. Before joining the Group in 2006, he had worked in the Sinopec Group, and was among the first group of constructors who was awarded the Registered Constructor qualification by the state. Mr. Li has 23 years of experience in engineering technology management.

Director's Report

The Directors have pleasure in submitting to shareholders their annual report and the audited consolidated financial statements for the year ended 31 December 2010.

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 2010 are set out in the Consolidated Statement of Comprehensive Income on page 73.

The Directors recommend the payment of a final dividend of HK$28.35 cents (equivalent to approximately RMB24.12 cents) per share and a special dividend of HK$5.66 cents (equivalent to approximately RMB4.82 cents) to the shareholders on the register of members on 31 May 2011. The total dividend amount is approximately RMB303,913,000, and the retention of the remaining profit for the year is approximately RMB709,174,000.

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 to 19.

Property, Plant and Equipment

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB2,188,884,000 has been incurred in acquiring property, plant and equipment.

Details of the movements during the year in property, plant and equipment of the Group are set out in Note 17 to the Consolidated Financial Statements.

Share Capital

Details of movements during the year in the share capital of the Company are set out in Note 40 to the Consolidated Financial Statements.

Reserves

Details of movements during the year in the reserves of the Group are set out in the Consolidated Statement of Changes in Equity on page 76.

Bank and Other Loans

Details of bank and other loans of the Group are set out in Note 36 to the Financial Statements.

Charitable Donations

Charitable donations by the Group for 2010 amounted to RMB28,006,000.

Directors' Emoluments

Details of Directors' emoluments are set out in Note 13 to the Financial Statements.

Directors

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

Executive Directors:

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

Non-executive Director:

Zhao Baoju
Jin Yongsheng

Independent non-executive Directors:

Wang Guangtian
Yien Yu Yu, Catherine
Kong Chung Kau

In accordance with Article 99 of the Company's Articles of Association, Mr. Zhao Shengli and Mr. Wang Dongzhi shall retire at the forthcoming annual general meeting (“AGM”) of the Company, while in accordance with Article 116 of the Company's Articles of Association, Mr. Cheng Chak Ngok, Mr. Liang Zhiwei, Ms. Zhai Xiaoqin, Ms. Yien Yu Yu, Catheirne and Mr. Kong Chung Kau shall retire by rotation at the AGM. Among the above retiring Directors, Mr. Cheng Chak Ngok, Mr. Zhao Shengli, Mr. Wang Dongzhi, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau are eligible and offer themselves for re-election, while Mr. Liang Zhiwei and Ms. Zhai Xiaoqin do not offer themselves for re-election and shall retire at the said AGM.

As of 31 December 2010, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation (other than statutory compensation).

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

Disclosure of Interests

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

As at 31 December 2010, 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			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 as at 31 December 2010
		Personal interests	Corporate interests	Family interests				
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	596,000 (Note 2)	326,095,000 (Note 1)	–	326,691,000	1,000,000 (Note 3)	327,691,000	31.20%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of controlled corporation and interest of spouse	–	326,095,000 (Note 1)	596,000 (Note 2)	326,691,000	1,000,000 (Note 3)	327,691,000	31.20%
Mr. Cheung Yip Sang	Beneficial owner	–	–	–	–	3,900,000	3,900,000	0.37%
Mr. Zhao Jinfeng	Beneficial owner	–	–	–	–	2,360,000	2,360,000	0.22%
Mr. Yu Jianchao	Beneficial owner	–	–	–	–	3,600,000	3,600,000	0.34%
Mr. Cheng Chak Ngok	Beneficial owner	–	–	–	–	450,000	450,000	0.04%
Mr. Liang Zhiwei	Beneficial owner	–	–	–	–	1,250,000	1,250,000	0.12%
Ms. Zhai Xiaoqin	Beneficial owner	–	–	–	–	1,250,000	1,250,000	0.12%
Mr. Jin Yongsheng	Beneficial owner	–	–	–	–	400,000	400,000	0.04%
Mr. Wang Guangtian	Beneficial owner	–	–	–	–	200,000	200,000	0.02%
Ms. Yien Yu Yu, Catherine	Beneficial owner	–	–	–	–	200,000	200,000	0.02%
Mr. Kong Chung Kau	Beneficial owner	–	–	–	–	200,000	200,000	0.02%

Notes:

1. The two references to 326,095,000 shares relate to the same block of shares. Such shares are held by ENN Group International Investment Limited ("EGII", previously known as Xinao Group International Investment Limited), 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. On 14 June 2010, Mr. Wang and Ms. Zhao were granted 800,000 and 200,000 share options respectively by the Company. Mr. Wang, being the spouse of Ms. Zhao, will be deemed to be interested in the share options held by Ms. Zhao while Ms. Zhao, being the spouse of Mr. Wang, will be deemed to be interested in the share options 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 2010, 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 scheme, the Company has granted options to subscribe for 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$) (Note 2)	Number of shares subject to outstanding options as at 1 January 2010	Number of options granted during the year	Number of shares subject to outstanding options as at 31 December 2010 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 31 December 2010 (Aggregate)
Mr. Wang	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	400,000 (Note 3)	800,000	0.08%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	400,000 (Note 3)		
Ms. Zhao	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	100,000 (Note 3)	200,000	0.02%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	100,000 (Note 3)		
Mr. Cheung Yip Sang	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	1,950,000	3,900,000	0.37%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	1,950,000		
Mr. Zhao Jinfeng	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	1,180,000	2,360,000	0.22%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	1,180,000		
Mr. Yu Jianchao	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	1,800,000	3,600,000	0.34%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	1,800,000		
Mr. Cheng Chak Ngok	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	225,000	450,000	0.04%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	225,000		
Mr. Liang Zhiwei	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	625,000	1,250,000	0.12%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	625,000		
Ms. Zhai Xiaoqin	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	625,000	1,250,000	0.12%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	625,000		
Mr. Jin Yongsheng	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	200,000	400,000	0.04%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	200,000		
Mr. Wang Guangtian	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	100,000	200,000	0.02%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	100,000		
Ms. Yien Yu Yu, Catherine	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	100,000	200,000	0.02%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	100,000		
Mr. Kong Chung Kau	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	100,000	200,000	0.02%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	100,000		
Total				–	14,810,000	14,810,000	

Notes:

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

2. The closing price of the shares immediately before the date on which the options were granted during the year was HK$16.22.

3. On 14 June 2010, Mr. Wang and Ms. Zhao were granted 800,000 and 200,000 share options respectively by the Company. Mr. Wang, being the spouse of Ms. Zhao, will be deemed to be interested in the share options held by Ms. Zhao while Ms. Zhao, being the spouse of Mr. Wang, will be deemed to be interested in the share options held by Mr. Wang.

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

Substantial Shareholders

As at 31 December 2010, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of shareholder	Capacity	Interests in shares			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 as at 31 December 2010
		Personal interests	Corporate interests	Family interests				
Mr. Wang	Beneficial owner and interest of controlled corporation	596,000 (Note 2)	326,095,000 (Note 1)	–	326,691,000	1,000,000 (Note 3)	327,691,000 (L)	31.20%
Ms. Zhao	Interest of controlled corporation and interest of spouse	–	326,095,000 (Note 1)	596,000 (Note 2)	326,691,000	1,000,000 (Note 3)	327,691,000 (L)	31.20%
EGII	Beneficial owner	–	326,095,000 (Note 1)	–	326,095,000	–	326,095,000 (L)	31.05%
Capital Research and Management Company	Investment manager	–	113,901,000	–	113,901,000	–	113,901,000 (L)	10.85%
Commonwealth Bank of Australia	Interest of controlled corporation	–	85,587,000	–	85,587,000	–	85,587,000 (L)	8.15%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent	–	63,120,497	–	63,120,497	–	63,120,497 (L) (including 59,677,441 (P))	6.01%

Notes:

1 The three references to 326,095,000 shares relate to the same block of shares. Such shares are held by EGII, 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. On 14 June 2010, Mr. Wang and Ms. Zhao were granted 800,000 and 200,000 share options respectively by the Company. Mr. Wang, being the spouse of Ms. Zhao, will be deemed to be interested in the share options held by Ms. Zhao while Ms. Zhao, being the spouse of Mr. Wang, will be deemed to be interested in the share options held by Mr. Wang.

4. (L) represents Long Position; (P) represents Lending Pool.

Save as disclosed above, as at 31 December 2010, 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 2010, 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 options are set out in Note 44 to the Consolidated 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$) (Note 2)	Number of shares subject to outstanding options as at 1 January 2010	Number of options granted during the year	Number of shares subject to outstanding options as at 31 December 2010 (Aggregate)	Approximate percentage of the Company's total issued share capital as at 31 December 2010 (Aggregate)
Directors	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	7,405,000	14,810,000	1.41%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	7,405,000		
Employees	14.06.2010	14.12.2010 – 14.06.2020	16.26	–	9,340,000	18,680,000	1.78%
	14.06.2010	14.06.2012 – 14.06.2020	16.26	–	9,340,000		
Total				–	33,490,000	33,490,000	3.19%

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. The closing price of the shares immediately before the date on which the options were granted during the year was HK$16.22.

No share option was exercised, lapsed or cancelled during the year.

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 providing party (Note 1)	Service accepting party	Contract date	Contract period	Property	Contract sum (RMB)
(i)	Langfang Elephant Club Property Services Company Limited ("Elephant Club Services")	Langfang Xinao Gas Company Limited	1.1.2008	3 years	Office building in Langfang city	1,400,000
(ii)	Elephant Club Services	Xinao Gas Development Company Limited	1.1.2008	3 years	Office building in Langfang city	570,000
(iii)	Elephant Club Services	Langfang Xinao Gas Company Limited	1.4.2008	33 months	Gas processing station in Langfang city	420,000
(iv)	Elephant Club Services	Langfang Branch, Xinao (China) Gas Development Company Limited	1.1.2010	7 months	Office building in Langfang city	161,000
(v)	Elephant Club Services	Langfang Branch, Xinao (China) Gas Development Company Limited	1.1.2010	1 year	Office building in Langfang city	370,000
(vi)	Elephant Club Services	Langfang Xinao Gas Equipment Company Limited	1.4.2008	2.75 years	Office building in Langfang city	257,000
(vii)	Elephant Club Services	Xinao Energy Logistics Limited	1.1.2010	1 year	Office building in Langfang city	225,000
(viii)	Elephant Club Services	Xinao Energy Trading Limited	1.1.2010	1 year	Office building in Langfang city	225,000
(ix)	Elephant Club Services	Langfang Xinao Gas Company Limited	1.6.2010	7 months	Office building in Langfang city	292,000
(x)	Elephant Club Services	Xinao Gas Development Company Limited	1.1.2010	3 months	Office building in Langfang city	115,000
(xi)	Elephant Club Services	Xinao Gas Development Company Limited	1.4.2010	9 months	Office building in Langfang city	788,000
						4,823,000

(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 providing party	Service accepting 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 providing party (Note 1)	Service accepting party	Contract date	Services	Contract sum (RMB)
• Langfang Tongcheng Vehicle Services Company Limited	Subsidiaries under ENN Energy Holdings Limited (formerly known as Xinao Gas Holdings Limited)	2008	• Transportation services	28,722,000
• Xinao Group Elephant Club Hotel Company Limited			• Hotel services	
• Xinao Petroleum and Gas Refuelling Stations of Langfang City Gas Company Limited			• Vehicle gasoline and gas refuelling services	
• Elephant Club Services			• Catering services	
• Xinao Group Company Limited			• Repair and maintenance services	
• Xinao Bowei Technology Company Limited			• Cultural services	
• Xinbo Zhuochang Technology (Beijing) Company Limited			• Technological services	
• Bita E-commerce Company Limited			• Provision of expert	
• Xinao Technology Development Company Limited			• Sharing services	

(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 Limited (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	• Bengbu Xinao Clean Energy Development Company Limited	2008	DME	10,431,000

(E) On 18 February 2009, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies agree to provide maritime transportation services to the Group for the transportation of energy including but not limited to liquefied petroleum gas, compressed natural gas and liquefied natural gas.

Maritime Transportation Services

Service providing party (Note 1)	**Service accepting party**	**Service**	**Contract sum** (RMB)
(i) Xinao Maritime Transportation Company Limited	Xinao Energy Trading Company Limited	Transportation of energy	16,800,000

The auditor of the Company has conducted an engagement with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Auditors or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants and has provided a letter to the Board of Directors of the Company confirming that based on the procedures carried out on the continuing connected transactions by the auditor of the Company:

a) nothing has come to the auditor's attention that causes the auditor to believe that the continuing connected transactions disclosed in this report have not been approved by the Company's Board of Directors.

b) nothing has come to the auditor's attention that causes the auditor to believe that the continuing connected transactions disclosed in this report were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

c) with respect to the aggregate amount of each of the continuing connected transactions disclosed in this report, nothing has come to the auditor's attention that causes the auditor to believe that the continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the Company's announcements dated 25 January 2008 and 18 February 2009 made in respect of each of the continuing connected transactions.

Non-Exempt Connected Transactions

(A) Construction Service

Service providing party	**Service accepting party**	**Service**	**Contract sum** (RMB)
Langfang Xinao Solar Energy Integration Company Limited (note 1)	Langfang Xinao Gas Company Limited	Installation of solar panel	29,407,000

(B) Purchase of land

Seller	**Buyer**	**Transaction**	**Contract sum** (RMB)
Xinao Technology Industry Company Limited (note 1)	Xinao Energy Logistics Company Limited	Purchase of land	32,900,000

(C) Purchase of building

Seller	Buyer	Transaction	Contract sum (RMB)
Xinao Technology Industry Company Limited (note 1)	Xinao Energy Logistics Company Limited	Purchase of office building	50,000,000

Exempted Connected Transactions

(A) Gas Connection Service

	Service providing party	Service accepting 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	51,000
(ii)	Xinao Gas Development Company Limited	Xinao Technology Industry Company Limited (note 1)	Gas connection for industrial customers	398,000
(iii)	Bozhou Xinao Gas Engineering Company Limited	Bozhou City Construction Investment Company Limited (note 2)	Gas connection for residential customers	2,476,000
				2,925,000

(B) Construction Service

	Service providing party (Note 2)	Service accepting party	Service	Contract sum (RMB)
(i)	Shantou City Chenghai Gas Construction Company Limited	Shantou Xinao Haojiang Gas Company Limited	Construction of pipeline	293,000
(ii)	Shantou City Chenghai Gas Construction Company Limited	Shantou Xinao Gas Company Limited	Construction of pipeline	1,655,000
				1,948,000

(C) Loan Advance

Lending party	Borrowing party	Contract date	Contract Period	Contract sum (RMB)
Zhanjiang Xinao Gas Company Limited	Zhanjiang City Gas Group Company (note 2)	22.07.2008	–	379,000

(D) Property Leasing Service

	Service providing party (Note 2)	Service accepting party	Contract date	Contract period	Property	Contract sum (RMB)
(i)	Changsha City Gas Industry Company	Changsha Xinao Gas Company Limited	1.1.2010	1 year	Office building, street store and warehouse in Changsha City	1,404,000
(ii)	Haining City Wantong Gas Company Limited	Haining Xinao Gas Company Limited	1.1.2008	–	Canteen and land parcel in Haining City	60,000
(iii)	Nanan City Trading, Industrial and Agricultural Investment Management Company Limited	Nanan City Gas Company Limited	1.2.2009	3 years	Office building in Nanan City	30,000
						1,494,000

(E) Land Leasing

	Lessor (Note 2)	Lessee	Contract date	Contract period	Property	Contract sum (RMB)
(i)	Yantai City Mouping District Fengxin Fuel Company Limited	Yantai Mouping Xinao Natural Gas Refuelling Company Limited	1.1.2009	28 years	Land parcel on which gas refuelling station is located	300,000
(ii)	Bengbu City Investment Holdings Limited	Bengbu Xinao Gas Development Company Limited	1.1.2009	4 years	Land parcel on which gas refuelling station is located	96,000
(iii)	Bengbu City Investment Holdings Limited	Bengbu Xinao Gas Development Company Limited	1.1.2010	10 years	Land parcel on which gas refuelling station is located	50,000
(iv)	Xinxiang City Public Transportation Company	Xinxiang Xinao Gas Company Limited	1.1.2010	3 years	Land parcel on which gas refuelling station is located	160,000
(v)	Xinxiang City Public Transportation Company	Xinxiang Xinao Vehicle Gas Company Limited	1.1.2010	5 years	Land parcel on which gas refuelling station is located	160,000
						766,000

(F) Transportation Service

Service providing party	Service accepting party	Service	Contract sum (RMB)
Tongliao City Rixin Natural Gas Company Limited (note 2)	Xinao Energy Logistics Company Limited	Transportation of energy	1,290,000

(G) Purchase of materials

Seller (Note 1)	Buyer	Transaction	Contract sum (RMB)
(i) Elephant Club Services	Langfang Xinao Gas Company Limited	Purchase of materials	14,000
(ii) Elephant Club Services	Beijing Xinao Huading Trading Company Limited	Purchase of materials	36,000
(iii) Bita E-commerce Company Limited	Xinao (China) Gas Investment Company Limited	Purchase of materials	2,043,000
(iv) ENN Solar Energy Company Limited	Xinao Energy Logistics Company Limited	Purchase of materials	2,887,000
			4,980,000

Notes:

1. Wang Family Companies are companies controlled (entitled to exercise, or control the exercise of, 30% or more of the voting power at any 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. 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.

Events after the Reporting Period

Details of significant event occurring after the reporting period are set out in Note 54 to the Consolidated Financial Statements.

Convertible Securities, Options, Warrants or Similar Rights

Other than the share options as set out in the section headed "Directors' rights to acquire shares" and the details of share options disclosed in Note 44 to the Consolidated Financial Statements, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2010.

Major Customers and Suppliers

Both the percentage of the purchases attributable from the Group's five largest suppliers and the percentage of the revenue 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, risk management function and the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, as well as their training programmes and budget) 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. Three Audit Committee meetings were held during the financial year, and the Audit Committee has reviewed the audited annual accounts for 2009 and the unaudited interim accounts for 2010. As of the date of this report, the Audit Committee has also reviewed the annual results and the audited annual accounts for 2010.

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. Two Remuneration Committee meetings were held during the financial year.

The Code on Corporate Governance Practices

To the knowledge of the Board, the Company has complied with the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Listing Rules throughout the year, except a deviation from the Code Provision E.1.2. where the chairman of the Board was unable to attend the annual general meeting ("AGM") of the Company held on 30 June 2010 due to unexpected business commitments. Alternatively, Mr. Cheng Chak Ngok, the executive Director and Company Secretary of the Company attended and acted as the chairman of the AGM. Details of compliance are set out in the Corporate Governance Report on pages 48 to 71 of the Annual 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

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.

Auditor

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

On behalf of the Board

WANG Yusuo

Chairman

Hong Kong, 25 March 2011

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 Asset

- Year 2009 "China's Most Promising Companies 2009"

The Hong Kong Management Association

- Year 2005 "Honourable Mention, The Best Annual Reports Awards"
- Year 2009 "Citation for Design, The Best Annual Reports Awards"

International ARC Awards

- Year 2003, 2006, 2007 "Honors, Overall Annual Report"
- Year 2008 "Gold, Overall Annual Report: Gas Distribution, Transport and Transmission"
- Year 2010 "Silver, Overall Annual Report: Gas Distribution, Transport and Transmission"
- Year 2010 "Bronze, Interior Design: Gas Distribution, Transport and Transmission"

Annual International Galaxy Awards

- Year 2008 "Silver, Annual Reports: Energy"
- Year 2009 "Gold, Annual Reports: Energy"

Vision Awards

- Year 2009 "Platinum Award"
- Year 2009 "Top 100 Annual Report of 2009"
- Year 2009 "Best Annual Report Cover – Gold, Asia Pacific Region"

Code on Corporate Governance Practices

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

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

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

To promote risk management along the operation chain, the Group's risk management committee has adopted and implemented a risk management model by phase-in approach in four subsidiaries of the Company 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. To carry out risk monitoring and identifying work in full, the Group has developed a risk management database and has continued its efforts in promoting the risk management model which was being further implemented in an additional of 14 subsidiaries during 2009. In 2010, the Risk Management Department of the Group conducted risk evaluation in 42 principal group companies and proposed improvement measures in respect of different kinds of risks identified. Follow-up actions have also been taken to monitor the improvement progress.

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 2009, 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. Currently, the Group has implemented a systematic control on the procurement-payment and sales-fee-collection business cycle and the compliance of the expenses claiming procedure.

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 2010, a total of 13 Board meetings (including four regular Board meetings) were held. Details of Directors' attendance record of Board meetings and Board Committees meetings in 2010 are as follows:

Board meeting

Director	*Attendance*	
Mr. Wang Yusuo	8/13	(4/4)*
Mr. Chen Jiacheng (resigned with effect from 31 March 2010)	2/2	(1/1)*
Mr. Cheung Yip Sang	11/13	(4/4)*
Mr. Zhao Jinfeng	8/13	(4/4)*
Mr. Yu Jianchao	11/13	(3/4)*
Mr. Cheng Chak Ngok	13/13	(4/4)*
Mr. Liang Zhiwei	8/13	(4/4)*
Ms. Zhai Xiaoqin	9/13	(4/4)*
Ms. Zhao Baoju	8/13	(4/4)*
Mr. Jin Yongsheng	10/13	(4/4)*
Mr. Wang Guangtian	10/13	(3/4)*
Ms. Yien Yu Yu, Catherine	11/13	(4/4)*
Mr. Kong Chung Kau	13/13	(4/4)*

* *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	2/3

Remuneration Committee meeting

Committee member	*Attendance*
Mr. Yu Jianchao	2/2
Mr. Wang Guangtian	1/2
Ms. Yien Yu Yu, Catherine	2/2
Mr. Kong Chung Kau	2/2

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

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

A.1 The Board (continued)

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

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

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. Cheung Yip Sang, 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. Cheung Yip Sang 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 of and access to 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. • Encourage directors to make a full and active contribution to board affairs. • Facilitate the effective contribution of non-executive directors and ensure constructive relations between executive and non-executive directors. • Ensure effective communication with shareholders and views of shareholders are communicated to the board as a whole.	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. • The Board has taken the following measures in relation to corporate governance practices: 1. the Board has adopted guidelines regarding: a) the roles and responsibilities of the Board and the senior management; b) the procedure for the Directors to seek independent professional advice at the Company's expenses; c) the division of responsibilities between the Chairman and the CEO; and d) dealing in the securities of the Company by Directors or relevant employees of the Group; and 2. the Company arranged training programmes and seminars on various topics covering, inter alia, matters relating to corporate development strategy, marketing strategy and requirements on discharging directors' duties. • 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. • The Company has set up an investor relations department since 2002. Any shareholders could communicate with the Company through emails, letters, phone calls or meetings etc. Shareholder's view would be passed to the Board for discussion according to its importance.

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

A.3 Board composition

Code Principle

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

The Company's Board

As at the date of this report, the Board comprises nine executive Directors, two non-executive Directors and three independent non-executive Directors. Currently, the Board members are as follows:

Mr. Wang Yusuo	(Chairman and Executive Director)
Mr. Cheung Yip Sang	(CEO and Executive Director)
Mr. Zhao Jinfeng	(Executive Director)
Mr. Yu Jianchao	(Executive Director)
Mr. Cheng Chak Ngok	(Executive Director)
Mr. Liang Zhiwei	(Executive Director)
Ms. Zhai Xiaoqin	(Executive Director)
Mr. Zhao Shengli	(Executive Director)
Mr. Wang Dongzhi	(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 the existing Board composition creates an adequate balance of skills and experience which is appropriate for the requirements of the business of the Company.

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 2010, 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 2009 and the interim results of the Group for the 6 months period ended 30 June 2010;
3. considered and approved the change of company name, stock short name and principal place of business in Hong Kong;
4. considered and approved the grant of share options pursuant to the share option scheme of the Company;
5. reviewed the effectiveness of the system of internal control and risk management of the Group;
6. reviewed general mandates to issue and repurchase shares of the Company; and
7. reviewed connected transactions and continuing 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, CEO, executive Directors, non-executive Directors and independent non-executive Directors) are disclosed in all corporate communications that disclose the names of the Directors, including annual reports, announcements, circulars to shareholders, notices of general meetings and in the Company's website at www.xinaogas.com.

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

A.4 Appointment, re-election and removal

Code Principle

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

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

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

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

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

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

Recommended Best Practice	Compliance	Details of Compliance
• Further appointment of an independent non-executive director serving more than nine years requires (i) separate shareholders approval and (ii) explanatory statement to shareholders to provide information on his continual independence. • Provide information to shareholders regarding the independence of the independent non-executive director proposed to be appointed.	Yes	• At its annual general meeting held on 30 June 2010, the Company has sought shareholders' approval on the further appointment of Mr. Wang Guangtian, who had served the Company for more than nine years, as an independent non-executive Director by a separate resolution. The reasons why the Board believed Mr. Wang Guangtian would continue to be independent and why he should be re-elected were set out in the circular to shareholders accompanying the notice of such meeting. The said resolution was duly passed by the shareholders on the meeting by a voting by poll. Except for the above, none of the independent non-executive Directors has served the Company for more than nine years. Should such circumstance arises again in the future, the Company will comply with this recommended best practice. • 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 that 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 give comments at Board meetings. • In relation to each connected transaction or continuing connected transaction of the Group 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.

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

A.5 Responsibilities of directors (continued)

Recommended Best Practice	Compliance	Details of Compliance
• Directors should participate in a programme of continuous professional development.	Yes	• In 2010, the Company organised seven internal training programmes and seminars for the Directors and the senior management on various matters relating to corporate development strategy, marketing strategy and requirements on discharging directors' duties. There have been satisfactory attendances in general.
• Directors should disclose to the issuer at the time of his appointment (and on periodic basis) offices held in other organisations and other significant commitments.	Yes	• Details of a Director, including the offices held by such Director in other organisations and other significant commitments are kept by the Company Secretary, and updated at least once a year. Biography of each Director is updated from time to time and confirmed by such Director before being published in the Company's annual report and circulars. • Executive Directors who intend to accept any directorship or appointment in other companies or entities would need to consult and obtain prior approval from the Board before acceptance.
• Non-executive directors should ensure regular attendance of and active participation in board committees, board meetings and general meetings.	Yes	• During the year under review, the non-executive Directors have actively participated in Board meetings, Board Committees meetings (if invited) (see Section A.1) and general meetings in general.
• Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.	Yes	• During the year under review, the non-executive Directors have satisfactorily discharged their duties.

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

A.6 Supply of and access to information

Code Principle

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

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

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

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

Code Principle

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

Remuneration Committee

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

Mr. 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 remuneration 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 twice during the year under review to consider the remuneration of the Directors and senior management and the grant of share options. 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 written terms of reference which meet the requirements as set out in paragraph B.1.3 of Appendix 14 to the Listing Rules. • The terms of reference of the Remuneration Committee are posted on the Company's website and will be available on request.
• The remuneration committee should consult the chairman and/or chief executive officer regarding proposed remuneration of other executive directors and have access to professional advice if necessary.	Yes	• The terms of reference of the Remuneration Committee provide that the committee should consult the Chairman and/or the CEO about proposed remuneration of other executive Directors. • The Remuneration Committee will consult the Chairman and/or the CEO before making recommendation on remuneration to the Board and will seek independent professional advice as and when necessary.
• The remuneration committee should be provided with sufficient resources to discharge its duties.	Yes	• The terms of reference of the Remuneration Committee provide that members of the Remuneration Committee may seek outside legal and independent professional advice as and when necessary at the costs of the Company. • In addition, the Board and the senior management will give full support to the Remuneration Committee.

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

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

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Code Principle

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

Code Provisions	Compliance	Details of Compliance
• Management should provide explanation on financial and other information to enable the board to make informed assessment.	Yes	• Directors are provided with general financial information with explanation thereof (if appropriate) of the Group on a regular basis. Moreover, the management also regularly meets with the Directors to present results and discuss any variance between the budget and the actual results (if any).
• Acknowledgement of directors' responsibility for preparing the accounts and a statement by the auditors regarding reporting responsibilities in auditors' report.	Yes	• A statement of Directors' responsibilities for financial statements is set out in the interim and annual reports. • Auditors' reporting responsibilities statement is set out in the auditors' report.
• Board's responsibility to present a balanced, clear and understandable assessment in annual/interim reports, price-sensitive announcements and other financial disclosures/reports under regulatory requirements.	Yes	• The Board is collectively responsible for ensuring clear and understandable assessment in annual/interim reports, price-sensitive announcements 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 2009 annual report was awarded by independent association as "Silver, Overall Annual Report: Gas Distribution, Transport and Transmission" and "Bronze, Interior Design: Gas Distribution, Transport and Transmission".

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 2010.
• Board's annual review should, in particular, consider the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget.	Yes	• The Board has included in its annual review the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget for the year under review.

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

C.2 Internal controls (continued)

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 Board will also consider the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. • 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 made adjustments to the authority management system according to the development of each company. Clear division of authority between the shareholders, directors and management was defined so that a balance between management efficiency and risk management can be achieved. • 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.

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 therein.

The Audit Committee met 3 times during the year under review to consider the interim and annual results of the Group and discuss with the auditors the impact of 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 2010, 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 2010	
• Audit fee paid – Interim review	RMB802,000
• Audit fee payable – Annual audit (subject to final agreement with the auditors)	RMB3,853,000
Non-audit services for the year 2010	
• Fee paid for provision of cost management services of the Group and other miscellaneous services	RMB788,000

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 will be updated from time to time to incorporate any relevant amendments made to Appendix 14 of the Listing Rules (if any), and a copy thereof is posted on the Company's website and will be made available on request. The primary responsibilities of the Audit Committee are set out therein.
• Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in the Corporate Governance Report the audit committee's recommendation and the board's view.	Yes	• The Board has not had any disagreement with the Audit Committee on the selection, appointment, resignation or dismissal of external auditors. Should there be such a disagreement, the Board will include the relevant details in its Corporate Governance Report.
• The audit committee should be provided with sufficient resources to discharge its duties.	Yes	• The terms of reference of the Audit Committee provide that the members of the Audit Committee may seek outside legal or other independent professional advice as and when necessary at the costs of the Company. • In addition, the Board and the senior management will give full support to the Committee.

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

D. DELEGATION BY THE BOARD

D.1 Management functions

Code Principle

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

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

Recommended Best Practice	Compliance	Details of Compliance
• Disclosure of division of responsibility between the board and management to assist those affected by corporate decisions to better understand their respective accountabilities.	Yes	• The Company has written internal guidelines setting out the division of responsibilities between the Board and management of the Company. In addition, the Board has made such disclosure to the Directors, the management and other staff by various means including internal circulars and meetings with management and staff.
• Formal letters of appointment for directors setting out the key terms and conditions relative to their appointment so that directors understand the delegation arrangements.	Yes	• It is the practice of the Company to enter into (i) a written service contract with each executive Director setting out the rights, obligation, duties, responsibilities and other terms and conditions of his/her appointment, and (ii) a letter of appointment with each non-executive Director confirming the terms of his/her appointment. • Upon expiry, all such service contracts and letters of appointment will continue thereafter based on the original terms and conditions unless and until terminated by either party by giving prior written notice. • No new service contracts and letters of appointment will be entered into by the Company separately for the purpose of renewing the existing ones.

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.

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 general 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 2010 due to unexpected business commitments. Alternatively, Mr. Cheng Chak Ngok, the executive Director and Company Secretary of the Company, attended and acted as the chairman of the said annual general meeting. • The Chairman of the Audit Committee who was also a member of the Remuneration Committee attended the said annual general meeting in 2010.
• 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 2010, there was no general meeting for approving a connected transaction or any other transaction that is subject to independent shareholders' approval.
• Notice to shareholders should be sent in the case of annual general meeting at least 20 clear business days before the meeting and be sent at least 10 clear business days in the case of all other general meetings.	Yes	• The notice of 2010 annual general meeting was sent to shareholders on 27 May 2010, 22 clear business days before the meeting which was held on 30 June 2010. • There was no other general meeting in 2010.

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

E.2 Voting by poll

Code Principle

The issuer should ensure that shareholders are familiar with the detailed procedures for conducting a poll.

Code Provisions	Compliance	Details of Compliance
• Chairman of meeting should adequately explain the detailed poll procedures and answer questions from shareholders regarding voting by poll at the commencement of the meeting.	Yes	• At the annual general meeting held in the year under review, the chairman of the meeting explained the poll procedures in details at the commencement of the meeting. No question regarding voting by poll was raised by shareholders at 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 2010, an annual general meeting of the Company will be held on 31 May 2011 and it is currently expected that interim results for the six months ended 30 June 2011 will be announced in August 2011. 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.

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.

Additional Corporate Governance Information *(continued)*

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 matters relating to investor relations. In the year under review, the executive Directors and senior management of the Company participated in 12 international investors' conferences, as well as 2 international road shows covering Hong Kong, Japan, Singapore, Europe and the US, to communicate with existing shareholders and the investment community in respect of the Group's latest results, prospects and development strategies. The Company has also delivered good interim and annual reports to shareholders which allow them to have a basic understanding of the natural gas industry, policy in China, prospect and the financial performance of the Company. 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 3101-04, 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 ENN ENERGY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of ENN Energy Holdings Limited (formerly known as Xinao Gas Holdings Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 73 to 168, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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, in accordance with our agreed terms of engagement, 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 about 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 of consolidated financial statements that give a true and fair view 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 Group's state of affairs as at 31 December 2010, and of its 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
25 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000 (Restated)
Revenue	8	**11,215,089**	8,412,880
Cost of sales		**(8,203,433)**	(5,872,730)
Gross profit		**3,011,656**	2,540,150
Other income	9	**189,049**	104,586
Other gains and losses	10	**20,638**	(132,642)
Distribution and selling expenses		**(212,511)**	(159,025)
Administrative expenses		**(1,169,146)**	(857,047)
Share of results of associates		**5,459**	5,066
Share of results of jointly controlled entities		**276,671**	210,719
Finance costs	11	**(310,851)**	(328,449)
Profit before tax	12	**1,810,965**	1,383,358
Income tax expense	14	**(409,800)**	(304,459)
Profit and total comprehensive income for the year		**1,401,165**	1,078,899
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**1,013,087**	802,876
Non-controlling interests		**388,078**	276,023
		1,401,165	1,078,899

		2010 RMB	2009 RMB (Restated)
Earnings per share	16		
– Basic		**96.5 cents**	77.7 cents
– Diluted		**95.4 cents**	77.4 cents

Consolidated Statement of Financial Position

At 31 December 2010

	NOTES	**31 December 2010 RMB'000**	31 December 2009 RMB'000 (Restated)	1 January 2009 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment	17	**10,800,123**	9,028,490	7,827,627
Prepaid lease payments	18	**658,096**	524,141	467,316
Investment properties	19	**53,845**	72,625	63,005
Goodwill	20	**191,841**	171,862	168,926
Intangible assets	21	**702,352**	449,773	464,712
Interests in associates	22	**487,683**	323,880	292,483
Interests in jointly controlled entities	23	**1,361,265**	1,015,641	757,620
Available-for-sale financial assets	24	**14,433**	14,056	13,956
Loan receivable	25	**6,000**	9,000	12,000
Other receivables	28	**72,439**	30,581	–
Amounts due from associates	30	**20,700**	71,795	–
Amounts due from jointly controlled entities	26	**–**	26,644	20,000
Amounts due from related companies	31	**20,489**	34,582	–
Deferred tax assets	42	**130,954**	33,678	–
Deposits paid for investments	43	**30,000**	62,200	96,228
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights		**5,376**	10,010	3,800
Restricted bank deposits	32	**5,305**	2,200	–
		14,560,901	11,881,158	10,187,673
Current assets				
Inventories	27	**249,019**	286,046	254,060
Trade and other receivables	28	**1,356,055**	1,208,275	1,431,087
Prepaid lease payments	18	**12,576**	11,105	9,354
Amounts due from customers for contract work	29	**306,913**	241,415	495,318
Amounts due from associates	30	**11,501**	4,301	17,630
Amounts due from jointly controlled entities	26	**213,585**	155,041	207,350
Amounts due from related companies	31	**12,808**	16,684	57,022
Restricted bank deposits	32	**64,891**	118,270	79,817
Cash and cash equivalents	33	**2,851,300**	2,712,661	1,725,358
		5,078,648	4,753,798	4,276,996
Non-current assets classified as held for sale		**–**	–	76,977
		5,078,648	4,753,798	4,353,973

Consolidated Statement of Financial Position

At 31 December 2010

	NOTES	**31 December 2010 RMB'000**	31 December 2009 RMB'000 (Restated)	1 January 2009 RMB'000 (Restated)
Current liabilities				
Trade and other payables	34	**3,572,688**	2,771,574	2,752,280
Amounts due to customers for contract work	29	**664,839**	564,898	465,606
Amounts due to associates	30	**69,297**	76,405	46,502
Amounts due to jointly controlled entities	26	**554,223**	327,826	102,884
Amounts due to related companies	35	**41,137**	21,261	35,507
Taxation payables		**172,288**	97,906	75,932
Bank and other loans – due within one year	36	**1,568,742**	675,796	1,239,450
Short-term debentures	37	**810,607**	808,699	630,043
Financial guarantee liability	38	**5,544**	3,383	4,384
Deferred income	39	**29,109**	16,290	692
		7,488,474	5,364,038	5,353,280
Liability associated with assets classified as held for sale		**–**	–	75,000
		7,488,474	5,364,038	5,428,280
Net current liabilities		**(2,409,826)**	(610,240)	(1,074,307)
Total assets less current liabilities		**12,151,075**	11,270,918	9,113,366
Capital and reserves				
Share capital	40	**109,879**	109,879	106,318
Reserves		**5,921,570**	5,006,792	4,128,347
Equity attributable to owners of the Company		**6,031,449**	5,116,671	4,234,665
Non-controlling interests		**1,508,402**	1,309,871	1,181,761
Total equity		**7,539,851**	6,426,542	5,416,426
Non-current liabilities				
Bank and other loans – due after one year	36	**2,567,632**	3,048,805	2,186,720
Guaranteed notes	41	**1,315,932**	1,351,209	1,346,927
Deferred tax liabilities	42	**225,034**	164,237	143,215
Deferred income	39	**502,626**	280,125	20,078
		4,611,224	4,844,376	3,696,940
		12,151,075	11,270,918	9,113,366

The consolidated financial statements on pages 73 to 168 were approved and authorised for issue by the Board of Directors on 25 March 2011 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 2010

	Equity attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Share options reserve RMB'000	Statutory surplus reserve fund RMB'000	Property revaluation reserve RMB'000	Designated safety fund RMB'000	Retained earnings RMB'000	Total RMB'000	Equity attributable to non-controlling interests RMB'000	Total equity RMB'000
	(Note 40)		(Note c)		(Note a)		(Note b)				
Balance at 1 January 2009	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
Effect of change in accounting policy (Note 3 and Note 4)	–	–	–	–	–	(28,813)	–	7,907	(20,906)	(4,108)	(25,014)
Balance at 1 January 2009 as restated	106,318	1,893,039	(18,374)	58,208	226,688	–	–	1,968,786	4,234,665	1,181,761	5,416,426
Profit and total comprehensive income for the year (Restated)	–	–	–	–	–	–	–	802,875	802,875	276,023	1,078,898
Issue of shares on exercise of share options (Note 40)	3,561	291,422	–	(58,208)	–	–	–	–	236,775	–	236,775
Acquisition of a business (Note 45(b))	–	–	–	–	–	–	–	–	–	2,107	2,107
Disposal of a subsidiary (Note 47(d))	–	–	–	–	–	–	–	–	–	(1,581)	(1,581)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	3,248	3,248
Dividend appropriation (Note 15)	–	–	–	–	–	–	–	(157,644)	(157,644)	–	(157,644)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(151,687)	(151,687)
Transfer to statutory surplus reserve fund	–	–	–	–	80,752	–	–	(80,752)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	–	14,176	(14,176)	–	–	–
Balance at 31 December 2009 as restated	109,879	2,184,461	(18,374)	–	307,440	–	14,176	2,519,089	5,116,671	1,309,871	6,426,542
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,013,087**	**1,013,087**	**388,078**	**1,401,165**
Acquisition of a businesses (Note 45(a))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**892**	**892**
Acquisition of assets through acquisition of subsidiaries (Note 46)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**26,467**	**26,467**
Capital contribution from non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,284**	**8,284**
Acquisition of additional interests in subsidiaries	**–**	**–**	**536**	**–**	**–**	**–**	**–**	**–**	**536**	**(7,844)**	**(7,308)**
Recognition of equity settled share-based payment	**–**	**–**	**–**	**101,313**	**–**	**–**	**–**	**–**	**101,313**	**–**	**101,313**
Dividend appropriation (Note 15)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(200,158)**	**(200,158)**	**–**	**(200,158)**
Dividend paid to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(217,346)**	**(217,346)**
Transfer to statutory surplus reserve fund	**–**	**–**	**–**	**–**	**60,803**	**–**	**–**	**(60,803)**	**–**	**–**	**–**
Transfer to designated safety fund	**–**	**–**	**–**	**–**	**–**	**–**	**11,790**	**(11,790)**	**–**	**–**	**–**
Balance at 31 December 2010	**109,879**	**2,184,461**	**(17,838)**	**101,313**	**368,243**	**–**	**25,966**	**3,259,425**	**6,031,449**	**1,508,402**	**7,539,851**

Notes:

a. In accordance with the People's Republic of China ("PRC") regulations, the statutory surplus reserves fund retained by subsidiaries in the PRC is non-distributable.

b. Pursuant to relevant PRC regulation, the Group is required to transfer 1.5% on revenue generated from transportation of gas or other dangerous chemical into a designated fund. The fund will be used for installation and repair and maintenance of safety facilities.

c. The amount as at 31 December 2009 represented 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 in 2007.

During the year ended 31 December 2010, the Group acquired additional interests in subsidiaries from non-controlling shareholders, the difference between the consideration paid and the carrying amount of non-controlling interests in respect of those additional interests of subsidiaries of RMB536,000 is dealt with reserve.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000 (Restated)
Cash flows from operating activities			
Profit before tax		**1,810,965**	1,383,358
Adjustments for:			
Share of results of associates		**(5,459)**	(5,066)
Share of results of jointly controlled entities		**(276,671)**	(210,719)
Exchange gain of guaranteed notes		**(40,782)**	(1,280)
Impairment loss on property, plant and equipment		**14,922**	22,145
(Reversal of impairment loss) impairment loss on trade and other receivables, net		**(16,793)**	58,644
Loss on disposal of property, plant and equipment		**19,895**	6,102
Gain on disposal of prepaid lease payments		**(20,169)**	(10,752)
(Gain) loss on disposal/deregistration of jointly controlled entities		**(2,865)**	7,967
(Gain) loss on derecognition/disposal of subsidiaries	47	**(9,697)**	1,571
Loss on deregistration of subsidiaries		**1,389**	–
Gain on disposal of an associate		**–**	(5,023)
Increase in fair value of investment properties		**(3,408)**	(9,620)
Share-based payment expenses		**101,313**	–
Depreciation of property, plant and equipment		**408,770**	355,363
Amortisation of intangible assets		**31,550**	22,939
Release of prepaid lease payments		**14,461**	10,148
Write off other receivable		**–**	54,258
Fair value adjustment on interest-free advances to related companies at initial recognition		**–**	7,350
Reversal of fair value adjustment on interest-free advances due to early settlement		**(3,912)**	–
Financial guarantee income		**(1,708)**	(1,001)
Interest income		**(26,242)**	(20,759)
Imputed interest on interest-free advances to related companies		**(670)**	–
Interest expenses		**310,851**	328,449
Deferred income released to profit or loss		**(23,750)**	(11,104)
		2,281,990	1,982,970
Movements in working capital:			
Decrease (increase) in inventories		**36,964**	(30,857)
(Increase) decrease in trade and other receivables		**(93,266)**	33,398
(Increase) decrease in amounts due from customers for contract work		**(65,498)**	253,903
Decrease (increase) in amounts due from associates		**75,616**	(5,974)
Increase in amounts due from jointly controlled entities		**(23,514)**	(818)
Decrease (increase) in amounts due from related companies		**8,491**	(4,208)
Increase in trade and other payables		**753,971**	116,386
Increase in amounts due to customers for contract work		**99,941**	99,292
Increase in amounts due to jointly controlled entities		**55,573**	48,156
(Decrease) increase in amounts due to associates		**(928)**	1,959
Increase (decrease) in amounts due to related companies		**16,870**	(14,527)
Cash generated from operations		**3,146,210**	2,479,680
PRC enterprise income tax paid		**(431,158)**	(295,141)
Net cash generated by operating activities		**2,715,052**	2,184,539

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000 (Restated)
Cash flows from investing activities			
Dividend received from jointly controlled entities		**88,790**	80,936
Dividend received from associates		**8,355**	4,415
Interest received		**26,242**	20,759
Deferred income received		**259,070**	286,749
Purchase of property, plant and equipment		**(2,151,453)**	(1,541,353)
Deposit paid for acquisition of operation rights		**–**	(3,328)
Deposit paid for acquisition of prepaid lease payment		**–**	(4,682)
Increase in prepaid lease payments		**(184,032)**	(85,483)
Net cash outflow on acquisition of subsidiaries	45	**(211,344)**	(21,553)
Net cash outflow on derecognition/deregistration of subsidiaries	47	**(11,795)**	–
Net cash inflow on disposal of a subsidiary	47	**–**	775
Proceeds from disposal of a jointly controlled entity		**6,000**	–
Proceeds from disposal of an associate		**–**	7,000
Deposits paid for investments in subsidiaries		**–**	(3,200)
Refund for deposits paid for investments in subsidiaries		**–**	13,019
Investments in jointly controlled entities		**(135,618)**	(131,579)
Investments in associates		**(137,975)**	(22,500)
Acquisition of intangible assets		**(39,626)**	(8,000)
Proceeds from disposal of property, plant and equipment		**4,287**	38,996
Proceeds from disposal of prepaid lease payments		**21,493**	27,510
Decrease (increase) in restricted bank deposits		**50,274**	(40,653)
Decrease in loan receivable		**3,000**	3,000
Net cash used in investing activities		**(2,404,332)**	(1,379,172)
Cash flows from financing activities			
Interest paid on bank and other loans, short-term debentures and discounted bills		**(243,978)**	(285,222)
Interest paid on guaranteed notes		**(100,852)**	(100,874)
Proceeds from shares issued on exercise of share options		**–**	236,775
Proceeds from issuance of short-term debentures		**800,000**	800,000
Repayment of short-term debentures		**(800,000)**	(600,000)
Acquisition additional interests in subsidiaries		**(7,308)**	–
Contribution from non-controlling shareholders		**8,284**	3,248
Dividends paid to non-controlling shareholders		**(217,346)**	(151,687)
Dividends paid to shareholders		**(200,158)**	(157,644)
Deferred consideration for acquisition of businesses		**–**	(94,553)
New bank loans raised		**2,277,704**	3,598,680
Repayment of bank loans		**(1,875,931)**	(3,300,249)
Amount advanced from associates		**60,500**	41,431
Amount repaid to associates		**(69,546)**	(2,225)
Amount advanced from jointly controlled entities		**616,495**	650,493
Amount repaid to jointly controlled entities		**(437,011)**	(459,132)
Amount advanced from related companies		**63,734**	6,690
Amount repaid to related companies		**(46,668)**	(3,795)
Net cash (used in) generated by financing activities		**(172,081)**	181,936
Net increase in cash and cash equivalents		**138,639**	987,303
Cash and cash equivalents at the beginning of year		**2,712,661**	1,725,358
Cash and cash equivalents at the end of year		**2,851,300**	2,712,661

1. General Information

The change of English name of the Company from "Xinao Gas Holdings Limited" to "ENN Energy Holdings Limited" has become effective on 13 August 2010. ENN Energy Holdings Limited (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 the same as the functional currency of the Company.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 55.

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 approximately RMB2,409,826,000 as at 31 December 2010. Having considered the secured credit facilities of approximately RMB3,655,000,000 which remain 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. Change in Accounting Policy

In previous years, the Group's land and buildings held for use in production or supply of goods or services were stated at revalued amount. The Directors consider that measuring these land and buildings at cost model provides more relevant information about the Group's financial performance to the economic decision-making needs of users as most of the companies engaging businesses in the distribution of natural gas in the People's Republic of China (the "PRC") adopt the cost model in measuring the land and buildings. As a result, the Group has decided to state their buildings at cost, less any accumulated depreciation and accumulated impairment losses. This change in accounting policy has been accounted for in accordance with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

The change in accounting policy has been accounted for retrospectively, and the comparative financial information as at 1 January 2009 and 31 December 2009 has also been restated. The impact is summarised in note 4.

The Group reviewed the recoverable amount of the land and buildings based on value in use calculations. As the result, the recoverable amount of the land and buildings assessed are more than its carrying value, and accordingly no impairment loss is recognised during the year ended 31 December 2010.

4. Application of New And Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied a number of new and revised standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the Group's financial year ended 31 December 2010.

Except as described below, the application of the new and revised standards and interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

4. Application of New And Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

HKFRS 3 (as revised in 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as "minority interests") either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquirees. In the current year, in accounting for the acquisition of 廣州新奧燃氣有限公司 (formerly known as 廣州富都管道燃氣有限公司 or Guangzhou Fudu") and 盤錦遼濱盛泰燃氣有限公司 ("Panjin Shengtai"), the Group has elected to measure non-controlling interests at their share of the identifiable net assets of the acquirees at the respective acquisition date as set out in Note 45.
- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition. The transaction costs on acquisition of business were insignificant for the businesses acquired in the current year and have been charged to profit or loss.

HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for the Group's changes in ownership interests in subsidiaries.

Specifically, the revised standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in subsidiaries that did not involve loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; the decreases in interests in existing subsidiaries that did not involve loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

During the year ended 31 December 2010, the Group has acquired additional interests in subsidiaries and recognised the difference between the consideration and the carrying amount of non-controlling interests amounting to RMB536,000 in special reserve.

The change in policy has resulted in a decrease in profit for the year of RMB536,000. In addition, the cash consideration paid in the current year of RMB7,308,000 has been included in cash flows from financing activities.

When control of a subsidiary is lost as a result of a transaction, event or other circumstances, the revised standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. The resulting difference is recognised in profit or loss.

The Group has applied these requirements of HKAS 27 (Revised) to subsidiaries becoming the Group's jointly controlled entities during the year and recognised gains of RMB9,697,000 in profit or loss and resulted in an increase in interests in jointly controlled entities of RMB34,183,000. Details of these transactions are set out in Note 47.

The adoption of changes in the accounting policies on retained interests when loss of control has resulted that the profit of the Group for year ended 31 December 2010 increase by RMB8,723,000.

4. Application of New And Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

Amendment to HKAS 17 Lease

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that is whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payment to property, plant, and equipment retrospectively. This resulted in prepaid lease payments with the carrying amounts of RMB4,912,000 and RMB4,768,000 as at 1 January 2009 and 31 December 2009 respectively being reclassified to property, plant and equipment.

As at 31 December 2010, leasehold land that qualifies for finance lease classification with the carrying amount of RMB4,624,000 has been included in property, plant and equipment. The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

The effect of the change in accounting policy and the application of the new and revised standards is summarised as below:

	As at 31 December 2009 (Originally stated) RMB'000	Adjustments arising from change in accounting policy (Note 3) RMB'000	Adjustment from adoption of new and revised standards RMB'000	As at 31 December 2009 (As restated) RMB'000
Property, plant and equipment	9,092,059	(68,337)	4,768	9,028,490
Prepaid lease payments	540,014	–	(4,768)	535,246
Deferred tax liabilities	(180,859)	16,622	–	(164,237)
Total effect on net assets	9,451,214	(51,715)	–	9,399,499
Property revaluation reserve	55,302	(55,302)	–	–
Retained earnings	2,508,941	10,148	–	2,519,089
Non-controlling interests	1,316,432	(6,561)	–	1,309,871
Total effect on equity	3,880,675	(51,715)	–	3,828,960

	As at 1 January 2009 (Originally stated) RMB'000	Adjustments arising from change in accounting policy (Note 3) RMB'000	Adjustment from adoption of new and revised standards RMB'000	As at 1 January 2009 (As restated) RMB'000
Property, plant and equipment	7,855,387	(32,672)	4,912	7,827,627
Prepaid lease payment	481,582	–	(4,912)	476,670
Deferred tax liabilities	(150,873)	7,658	–	(143,215)
Total effect on net assets	8,186,096	(25,014)	–	8,161,082
Property revaluation reserve	28,813	(28,813)	–	–
Retained earnings	1,960,879	7,907	–	1,968,786
Non-controlling interests	1,185,869	(4,108)	–	1,181,761
Total effect on equity	3,175,561	(25,014)	–	3,150,547

4. Application of New And Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

The effect of change in accounting policy on the results for the current and prior years by line items presented in the consolidated statement of comprehensive income is as follows:

	Year ended 31 December 2009 (Originally stated) RMB'000	Adjustments Arising from change in accounting policy RMB'000	Year ended 31 December 2009 (As restated) RMB'000
Cost of sales	5,874,980	(2,250)	5,872,730
Non-controlling interests	276,014	9	276,023
Net impact on profit attributable to owner of the Company	6,150,994	(2,241)	6,148,753

The effect of change in accounting policy as described above and note 3 on the results for the current and prior years by line items are as follows:

	2010 RMB'000	2009 RMB'000
Decrease in depreciation expense of property, plant and equipment included in cost of sales	**875**	2,250
Decrease in other expenses arising from revaluation deficits of property, plant and equipment	**9,165**	–
Decrease in profit in relation to change in ownership interests in subsidiaries without loss in control	**(536)**	–
Increase in profit with the gain on derecognition of subsidiaries on loss of control to jointly controlled entities	**9,697**	–
Increase in profit for the year	**19,201**	2,250
Profit attributable to:		
Owners of the Company	**19,199**	2,241
Non-controlling interests	**2**	9
	19,201	2,250

The effect of the change in accounting policy and the application of the new and revised standards on the Group's basic and diluted earnings per share for the current and prior year are as follows:

	Impact on basic earnings per share		**Impact on diluted earnings per share**	
	2010 RMB cents	2009 RMB cents	**2010 RMB cents**	2009 RMB cents
Figures before adjustments	**94.9**	77.5	**93.8**	77.2
Adjustments arising from:				
– Change in accounting policy relating to property, plant and equipment	**0.9**	0.2	**0.9**	0.2
– Change in ownership interests in subsidiaries without loss in control	**(0.1)**	-	**(0.1)**	-
– Derecognition of subsidiaries on loss of control to jointly controlled entities	**0.8**	-	**0.8**	-
	96.5	77.7	**95.4**	77.4

4. Application of New And Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[7]
HKFRS 9	Financial Instruments[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (as revised in 2009)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Right Issues[5]
HK (IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK (IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2013
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 February 2010
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 July 2011

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets and will be effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. The Directors anticipated that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the year ending 31 December 2013, and the application of the new standard may have an impact on the amounts reported in respect of the Group's available-for-sale investments which are currently stated at cost less impairment and will be measured at fair value upon adoption.

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. If the presumption is not rebutted, the directors anticipate that the application of the amendments to HKAS 12 may have material impact on deferred tax recognised for investment properties that are measured using the fair value model.

The directors of the Group anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

5. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with 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.

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

5. Significant Accounting Policies *(continued)*

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 statement of comprehensive income 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

On or after 1 January 2010, total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

5. Significant Accounting Policies *(continued)*

Business combinations *(continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree. Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill

Goodwill arising on an acquisition of a business is carried cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit 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 acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, 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 basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating units, 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 is described below.

5. Significant Accounting Policies *(continued)*

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 consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are 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 an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount 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.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

Where a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Interests in joint venture

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

The Group reports its interests in jointly controlled entities using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities, less any impairment. 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. Additional losses are 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 a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

5. Significant Accounting Policies *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Gas connection revenue is recognised when the outcome of a contract can be estimated reliably and the stage of completion at the end of the reporting period 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 recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Transfer of assets from customers

When the Group receives cash from a customer for the construction or acquisition of an item of property, plant and equipment and the Group must then use the item of property, plant and equipment to provide the customer with ongoing access to a supply of gas, the item of property, plant and equipment is recognised in accordance with HKAS 16 "*Property, Plant and Equipment*" and the revenue (the credit resulting from the initial recognition of the item of property, plant and equipment) is recognised in accordance with HKAS 18 "*Revenue*".

When an ongoing service is identified as part of the agreement, the period over which revenue is recognised for that service is generally determined by the terms of the agreement with the customer. When the agreement does not specify a period, the revenue is recognised over a period no longer than the useful life of the relevant property, plant and equipment used to provide the ongoing service.

Gas connection contracts

Where the outcome of a gas connection contract can be estimated reliably and the stage of contract completions at the end of the reporting period can be measured reliably, contract costs are charged to the consolidated statement of comprehensive income by reference to the stage of completion of the contract activity at the end of the reporting period on the same basis as revenue from gas connection contract is recognised.

Where 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 total 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 amounts 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 amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position 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 statement of financial position.

5. Significant Accounting Policies *(continued)*

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified 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, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those classified as investment properties and accounted for using the fair value model.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 on monetary items are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the 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

Government grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

5. Significant Accounting Policies *(continued)*

Retirement benefit scheme contribution

The retirement benefit scheme contribution charged to the consolidated statement of comprehensive income represents the Group's contribution payable to the Mandatory Provident Fund Scheme and the retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC, and are charged as expenses when employees have rendered service entitling them to the contributions.

Share-based payment arrangements

Share options granted by the Company to employees of the Group in an equity-settled share-based payment arrangement

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 options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When the share options are exercised, the amount previously recognised in share options 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 options reserve will be transferred to retained earnings.

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 profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and 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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax 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 difference associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred tax for the year is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. Significant Accounting Policies *(continued)*

Property, plant and equipment

Property, plant and equipment included building and leasehold land (classified as finance lease) held for use in the production or supply of goods or services, or for administrative (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, or deemed cost for properties transferred from investment properties less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production or supply of goods or services, or for administrative are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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.

Depreciation is recognised so as to write off the costs of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the profit or loss in the period which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. 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 property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

For a transfer from investment property to property, plant and equipment, the investment property is measured at the fair value at the date of transfer. Gain or losses arising from changes in the fair value of investment property are recognised in the profit or loss for the period in which the investment property is transferred. The fair value of the investment property will be recognised as the property's deemed cost for subsequent accounting in accordance with the accounting policy of property, plant and equipment as set out above.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below). The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

5. Significant Accounting Policies *(continued)*

Intangible assets *(continued)*

Research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognised separately from goodwill and are initially measured at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are carried at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured at the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the profit and loss in the period when the asset is derecognised.

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. Costs are determined using weighted average cost formula. Net realisable represents the estimated selling price for inventories less all estimated costs to completion and the costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities 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.

5. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including loan receivable, trade and other receivables, amounts due from associates, amounts due from jointly controlled entities, amounts due from related companies, restricted bank deposits and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment (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 as or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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 are measured at cost less any impairment at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss is recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

5. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

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. 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 against the allowance account. Changes in the carrying amount of the allowance accounts are recognised in 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 instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements 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.

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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

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 recognised at the proceeds received, net of direct issue costs.

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 is initially measured at its fair value and if not designated as at fair value through profit or loss, are subsequently measured at the higher of: (i) the amount of the obligation under the contract, as determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with HKAS 18 "*Revenue*".

5. Significant Accounting Policies *(continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, 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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when,and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

6. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 5, 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 underlying 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 end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

The carrying value of property, plant and equipment at 31 December 2010 amounted to RMB10,800,123,000 (31 December 2009: RMB9,028,490,000 and 1 January 2009: RMB7,827,627,000). 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 2010 amounted to RMB191,841,000 (31 December 2009: RMB171,862,000 and 1 January 2009: RMB168,926,000). 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 20.

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 2010, the carrying amount of trade and other receivables after deducting the impairment recognised is RMB723,896,000 (31 December 2009: RMB685,609,000 and 1 January 2009: RMB748,192,000). Details of movement in impairment on trade and other receivables are set out in Note 28.

7. Capital 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 36, 37 and 41, 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 end of the reporting period was as follows:

	31 December 2010 RMB'000	31 December 2009 RMB'000 (Restated)	1 January 2009 RMB'000 (Restated)
Bank and other loans	**4,136,374**	3,724,601	3,426,170
Short-term debentures	**810,607**	808,699	630,043
Guaranteed notes	**1,315,932**	1,351,209	1,346,927
	6,262,913	5,884,509	5,403,140
Less: Cash and cash equivalents	**2,851,300**	2,712,661	1,725,358
Net debt	**3,411,613**	3,171,848	3,677,782
Total equity	**7,539,851**	6,426,542	5,416,426

	31 December 2010 %	31 December 2009 (Restated) %	1 January 2009 (Restated) %
Net debt to total equity ratio	**45**	49	68

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

7. Capital Management and Financial Instruments *(continued)*

b. Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are set out as follows:

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Financial assets			
Available-for-sale financial assets	**14,433**	14,056	13,956
Loans and receivables (including cash and cash equivalents)	**3,919,324**	3,823,424	3,031,505
Financial liabilities			
Amortised cost	**8,464,150**	7,669,044	6,936,987
Financial guarantee liability	**5,544**	3,383	4,384

c. Financial risk management objectives and policies

The Group's major financial instruments include loan receivable, trade and other receivables, available-for-sale financial assets, amount due from/to associates, jointly controlled entities and related companies, cash and cash equivalents, restricted bank deposits, trade and other payables, bank and other loans, short-term debentures, 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 foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk.

Foreign currency risk management

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 monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets			**Liabilities**		
	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000	**31 December 2010 RMB'000**	31 December 2009 RMB'000	1 January 2009 RMB'000
Foreign currency:						
United States Dollar ("USD")	**29,568**	69,491	849	**2,483,513**	2,443,721	1,381,101
Hong Kong Dollar ("HKD")	**23,007**	27,398	1,254	**11,404**	13,706	125,786

7. Capital Management and Financial Instruments *(continued)*

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

Foreign currency risk management (continued)

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

	United States Dollar			Hong Kong Dollar		
	31 December 2010 %	31 December 2009 %	1 January 2009 %	**31 December 2010 %**	31 December 2009 %	1 January 2009 %
Possible change in exchange rate	**5**	5	5	**5**	5	5

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000	**31 December 2010 RMB'000**	31 December 2009 RMB'000	1 January 2009 RMB'000
(Decrease) increase in profit for the year:						
– if RMB weakens against foreign currencies	**(122,697)**	(118,712)	(68,449)	**580**	685	(6,227)
– if RMB strengthens against foreign currencies	**122,697**	118,712	68,449	**(580)**	(685)	6,227

Interest rate risk management

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 amounts due from jointly controlled entities, non-current amount due from associates, non-current amounts due from related companies, fixed-rate bank and other loans, short-term debentures and guaranteed notes (see Notes 26, 30, 31, 36, 37 and 41 for details of these amounts, loans, debentures and notes respectively).

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

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate loan receivable and bank loans (see Notes 25 and 36 for details of these amounts).

7. Capital Management and Financial Instruments *(continued)*

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

Interest rate risk management (continued)

Cash flow interest rate risk *(continued)*

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 liabilities outstanding at the end of the reporting period was outstanding for the whole year, and excluding the interest expected to be capitalised.

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Reasonably possible change in interest rate	**27 basis points**	27 basis points	27 basis points
(Decrease) increase in profit for the year			
– as a result of increase in interest rate	**(8,744)**	(8,017)	(7,981)
– as a result of decrease in interest rate	**8,744**	8,017	7,981

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

Price risk

The Group is exposed to equity price risk. Its investment in unlisted equity securities with carrying value of RMB14,433,000 (31 December 2009: RMB14,056,000 and 1 January 2009: RMB13,956,000) which was classified as available-for-sale financial assets but are stated at cost less accumulated impairment. As 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, accordingly, sensitivity analysis for price risk is not presented.

Credit risk management

As at 31 December 2010, 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 and financial guarantee provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and
- the amount of contingent liability in relation to the financial guarantee provided by the Group as disclosed in Note 38.

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 at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In respect of the risk arising from the provision of financial guarantees, the management of the Group continuously monitors the credit quality and financial conditions of the guaranteed parties that the Group issued financial guarantee contracts in favour of to ensure that the Group will not suffer significant credit losses as a result of the failure of the guaranteed parties on the repayment of the relevant loans. 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 1 January 2009, and 31 December 2009 and 2010.

7. Capital Management and Financial Instruments *(continued)*

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

Liquidity risk management

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 2010, the Group has available unutilised short-term bank loan facilities and short-term debenture facilities of approximately RMB3,405,000,000 (31 December 2009: RMB1,030,000,000 and 1 January 2009: RMB2,043,000,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average effective interest rate	Repayable on demand or within one year	Within the second year	Within the third year	Within the forth year	Within the fifth year	Over five years	Total un-discounted cash flow	Carrying amount at end of the reporting period
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2010									
Trade and other payables	–	1,533,199	3,300	81	–	–	–	1,536,580	1,536,580
Amounts due to associates	–	69,297	–	–	–	–	–	69,297	69,297
Amounts due to jointly controlled entities	–	554,223	–	–	–	–	–	554,223	554,223
Amounts due to related-companies	–	41,137	–	–	–	–	–	41,137	41,137
Bank and other loans									
– fixed rate	4.88	783,027	344	–	–	–	–	783,371	772,543
– variable rate	5.69	966,701	689,728	961,676	279,366	302,859	848,977	4,049,307	3,363,831
Short-term debentures	3.27	826,160	–	–	–	–	–	826,160	810,607
Guaranteed notes	7.37	97,685	1,382,724	–	–	–	–	1,480,409	1,315,932
Financial guarantee contracts		45,000	–	–	–	–	–	45,000	5,544
		4,916,429	2,076,096	961,757	279,366	302,859	848,977	9,385,484	8,469,694
At 31 December 2009									
Trade and other payables	–	1,356,794	2,200	49	–	–	–	1,359,043	1,359,043
Amounts due to associates	–	76,405	–	–	–	–	–	76,405	76,405
Amounts due to jointly controlled entities	–	327,826	–	–	–	–	–	327,826	327,826
Amounts due to related-companies	–	21,261	–	–	–	–	–	21,261	21,261
Bank and other loans									
– fixed rate	3.60	636,924	3,214	3,214	3,214	3,214	99,707	749,487	712,383
– variable rate	5.04	216,157	481,313	551,240	907,865	266,512	1,241,959	3,665,046	3,012,218
Short-term debentures	3.15	825,200	–	–	–	–	–	825,200	808,699
Guaranteed notes	7.92	115,178	115,178	1,676,918	–	–	–	1,907,274	1,351,209
Financial guarantee contracts	–	30,000	–	–	–	–	–	30,000	3,383
		3,605,745	601,905	2,231,421	911,079	269,726	1,341,666	8,961,542	7,672,427
At 1 January 2009									
Trade and other payables	–	1,347,884	1,100	10	–	–	–	1,348,994	1,348,994
Amounts due to associates	–	46,502	–	–	–	–	–	46,502	46,502
Amounts due to jointly controlled entities	–	102,844	–	–	–	–	–	102,844	102,844
Amounts due to related companies	–	35,507	–	–	–	–	–	35,507	35,507
Bank and other loans									
– fixed rate	4.81	297,429	3,214	3,214	3,214	3,214	99,708	409,993	383,665
– variable rate	5.61	1,126,677	184,136	242,523	283,379	305,932	1,598,893	3,741,540	3,042,505
Short-term debentures	5.95	630,043	–	–	–	–	–	630,043	630,043
Guaranteed notes	7.92	115,178	115,178	115,178	1,676,918	–	–	2,022,452	1,346,927
Financial guarantee contracts	–	60,000	–	–	–	–	–	60,000	4,384
		3,762,064	303,628	360,925	1,963,511	309,146	1,698,601	8,397,875	6,941,371

7. Capital Management and Financial Instruments *(continued)*

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

Liquidity risk management (continued)

The amounts included above for financial guarantee contracts are the maximum exposure to the Group if that amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guarantee suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The contractual expiry periods of financial guarantee contracts at the end of the reporting period are as follows:

	31 December 2010		31 December 2009		1 January 2009	
	RMB'000	**Expiry period**	RMB'000	Expiry period	RMB'000	Expiry period
Guarantees issued to banks to secure loan granted to associates	**45,000**	**2012-2013**	30,000	2013	60,000	2009-2013

d. Fair value of financial instruments

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; and

– The fair value of financial guarantee contracts at initial recognition 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.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values:

	31 December 2010		31 December 2009		1 January 2009	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Amount due from a jointly controlled entity	**–**	**–**	–	–	20,000	19,330
Fixed-rate bank loans	**772,543**	**682,512**	712,383	668,386	383,665	358,231
Guaranteed notes	**1,315,932**	**1,327,364**	1,351,209	1,352,527	1,346,927	1,354,950

8. Revenue

	2010 RMB'000	2009 RMB'000
Revenue comprises the following:		
Sales of goods		
Sales of piped gas	**6,632,734**	4,077,527
Distributions of bottled liquefied petroleum gas ("LPG")	**240,290**	897,121
Vehicle gas refuelling stations	**1,209,385**	797,663
Sales of gas appliances	**83,903**	86,814
	8,166,312	5,859,125
Provision of service		
Gas connection fees	**3,048,777**	2,553,755
	11,215,089	8,412,880

9. Other Income

	2010 RMB'000	2009 RMB'000
Other income includes:		
Incentive subsidies (note a)	**49,962**	35,942
Interest income	**26,242**	20,759
Imputed interest on interest-free advances to related companies	**670**	–
Compensation received	**102**	1,296
Gain on foreign exchange, net (note b)	**75,158**	6,717
Pipeline transmission income	**539**	956
Rental income from investment properties, net (note c)	**2,731**	3,502
Repairs and maintenance income	**4,417**	8,171
Financial guarantee income	**1,708**	1,001

Notes:

(a) The amount mainly represents refunds of various taxes as incentives and other incentives in relation to encouragement for development of nature gas business by the government authorities in various cities of the PRC.

(b) Included in the balance is an amount of RMB40,782,000 (2009: RMB1,280,000) which is the exchange gain arising from the conversion of guaranteed notes denominated in US dollar.

(c) The outgoing expenses deducted from the gross rental income of investment properties amounted to RMB424,000 (2009: RMB120,000).

10. Other Gains and Losses

	2010 RMB'000	2009 RMB'000 (Restated)
Impairment loss (recognised) reversed on:		
– Property, plant and equipment (Note 17)	**(14,922)**	(22,145)
– Trade and other receivables, net (Note 28)	**16,793**	(58,644)
Gain (loss) on disposal of:		
– Property, plant and equipment	**(19,895)**	(6,102)
– Prepaid lease payments	**20,169**	10,752
– An associate (Note a)	**–**	5,023
– Jointly controlled entities (Note b)	**2,865**	(7,967)
Gain (loss) on derecognition/disposal of subsidiaries (Note 47)	**9,697**	(1,571)
Loss on deregistraion of subsidiaries	**(1,389)**	–
Increase in fair value of investment properties (Note 19)	**3,408**	9,620
Write off other receivable	**–**	(54,258)
Reversal of fair value adjustment on interest free advances to related companies at intital recognition (Note 31)	**–**	(7,350)
Fair value adjustment on interest-free advances to related companies due to early settlement	**3,912**	–
	20,638	(132,642)

Notes:

a. The balance of RMB5,023,000 represented the gain on disposal of equity interest of 咸陽新奧燃氣有限公司 (Xianyang Xinao Gas Company Limited) in 2009.

b. The balance of RMB7,967,000 in 2009 represented the loss arising from the deregistration of 廣東新奧龍鵬能源有限公司 (Guangdong Xinao Longpeng Energy Company Limited) and 新奧新能源(蘇州)有限公司 (Xinao New Energy (Suzhou) Company Limited). The balance of RMB2,865,000 was arising from the disposal of 雲南新奧清潔能源有限公司 (Yunnan Xinao Clean Energy Company Limited) ("Yunnan Clean Energy") during the year ended 31 December 2010 (Note 23(c)).

11. Finance Costs

	2010 RMB'000	2009 RMB'000
Interest on:		
Bank and other loans wholly repayable within five years	**76,234**	150,320
Bank loans not wholly repayable within five years	**142,548**	98,570
Guaranteed notes	**103,916**	105,920
Short-term debentures	**27,104**	14,357
Discounted bills	**–**	631
	349,802	369,798
Less: Amount capitalised under construction in progress (note)	**(38,951)**	(41,349)
	310,851	328,449

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

12. Profit Before Tax

	2010 RMB'000	2009 RMB'000 (Restated)
Profit before tax has been arrived at after (crediting) charging:		
Share-based payment expenses, including directors' emoluments (included in administrative expenses)	**101,313**	–
Other staff costs, including directors' emoluments	**818,986**	651,483
Less: Amount of other staff costs capitalised under construction in progress	**(26,626)**	(13,031)
	792,360	638,452
Depreciation and amortisation:		
Property, plant and equipment	**408,770**	355,363
Intangible assets	**31,550**	22,939
Total depreciation and amortisation (note)	**440,320**	378,302
Release of prepaid lease payments	**14,461**	10,148
Auditors' remuneration	**7,675**	6,869
Minimum lease payments under operating leases in respect of land and buildings recognised in profit or loss	**39,842**	24,804
Research and development expenses (included in administrative expenses)	**10,834**	4,810

Note: The amount of total depreciation and amortisation included in cost of sales and administrative expenses are as follows:

	2010 RMB'000	2009 RMB'000 (Restated)
Depreciation and amortisation included in:		
Cost of sales	**343,888**	302,011
Administrative expenses	**96,432**	76,291
	440,320	378,302

13. Remuneration of Directors and Employees

(a) Directors' emoluments

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

	2010					
Name of director	Fee RMB'000	Salaries and allowance RMB'000	Discretionary performance bonus RMB'000	Share-based payment RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Wang Yusuo	–	2,090	–	2,420	–	4,510
Chen Jiacheng	–	310	–	–	38	348
Zhao Jinfeng	–	435	–	7,139	–	7,574
Jin Yongsheng	131	–	–	1,210	–	1,341
Yu Jianchao	–	435	–	10,891	–	11,326
Cheung Yip Sang	–	853	694	11,798	36	13,381
Cheng Chak Ngok	–	920	–	1,361	10	2,291
Liang Zhiwei	–	435	–	3,781	–	4,216
Zhai Xiaoqin	–	435	–	3,781	–	4,216
Zhao Baoju	131	–	–	605	–	736
Wang Guangtian	131	–	–	605	–	736
Yien Yu Yu, Catherine	131	–	–	605	–	736
Kong Chung Kau	131	–	–	605	–	736
	655	5,913	694	44,801	84	52,147

	2009					
Name of director	Fee RMB'000	Salaries and allowance RMB'000	Discretionary performance bonus RMB'000	Share-based payment RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Wang Yusuo	–	2,115	–	–	–	2,115
Chen Jiacheng	–	1,483	304	–	67	1,854
Zhao Jinfeng	–	441	–	–	–	441
Jin Yongsheng	132	–	–	–	–	132
Yu Jianchao	–	441	–	–	–	441
Cheung Yip Sang	–	1,105	747	–	33	1,885
Cheng Chak Ngok	–	761	–	–	11	772
Liang Zhiwei	–	441	–	–	–	441
Zhai Xiaoqin	–	441	–	–	–	441
Zhao Baoju	132	–	–	–	–	132
Wang Guangtian	132	–	–	–	–	132
Yien Yu Yu, Catherine	132	–	–	–	–	132
Kong Chung Kau	132	–	–	–	–	132
	660	7,228	1,051	–	111	9,050

The amounts disclosed above include directors' fees of RMB393,000 (2009: RMB396,000) payable to independent non-executive directors. None of the Directors waived any emoluments during the year.

13. Remuneration of Directors and Employees *(continued)*

(b) Five highest paid individuals

The five highest paid individuals in the Group in 2010 and 2009 were all directors of the Company and details of their emoluments are included in note (a) above.

14. Income Tax Expense

	2010 RMB'000	2009 RMB'000
PRC Enterprise Income Tax:		
Current tax	**297,379**	330,413
Under (over) provision in prior years	**876**	(19,057)
Withholding tax	**15,190**	5,759
	313,445	317,115
Deferred tax (Note 42)		
Current year	**96,355**	(12,656)
	409,800	304,459

The charge represents PRC Enterprise Income Tax for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable for PRC group entities is 25% from 1 January 2008 onwards 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% in 2007 is gradually transit to the new tax rate of 25% within 5 years after the enforcement of the EIT Law and the tax rate applicable for 2010 is 22%.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter and a 50% relief from PRC Enterprise Income Tax for the following three years. Under the EIT Law, the PRC Enterprise Income Tax rates applicable to these subsidiaries range from 22% to 25% (2009: 20% to 25%) and the reduced tax rates for the relief period range from 11% to 12.5% (2009: 10% to 12.5%). The charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentives into account. The tax benefit will expire during the period from year 2011 to 2012.

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for the year.

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

	2010 RMB'000	2009 RMB'000 (Restated)
Profit before tax	**1,810,965**	1,383,358
Tax at the PRC Enterprise Income Tax rate of 25%	**452,741**	345,840
Tax effects of share of results of associates	**(1,365)**	(1,267)
Tax effects of share of results of jointly controlled entities	**(69,168)**	(52,680)
Tax effects of income not taxable for tax purpose	**(14,611)**	(7,032)
Tax effects of expenses not deductible for tax purpose	**74,765**	65,273
Tax effects of tax losses not recognised	**99,767**	95,736
Utilisation of tax losses previously not recognised	**(25,841)**	(8,438)
Tax effects of deductible temporary differences not recognised	**(14,655)**	43,101
Tax concession and exemption granted to PRC subsidiaries	**(15,628)**	(29,621)
Effect of different tax rates of subsidiaries	**(89,793)**	(143,655)
(Over) under provision in respect of prior years	**876**	(19,057)
Withholding tax on undistributed profit of PRC entities	**12,712**	16,259
Income tax charge for the year	**409,800**	304,459

15. Dividends

	2010 RMB'000	2009 RMB'000
Final dividend paid in respect of 2009 of HK21.65 cents (equivalent to RMB19.06 cents) per share (2009: 2008 final dividend of HK17.71 cents (equivalent to approximately RMB15.62 cents) per share)	**200,158**	157,644
Final dividend proposed in respect of 2010 of HK28.35 cents (equivalent to RMB24.12 cents) per share (2009: 2009 final dividend proposed of HK21.65 cents (equivalent to RMB19.06 cents per share)	**253,296**	200,158
Special dividend proposed in respect of 2010 of HK5.66 cents (equivalent to RMB4.82 cents) per share (2009: Nil per share)	**50,617**	–

The proposed final and special dividend in respect of 2010 of HK28.35 cents (equivalent to approximately RMB24.12 cents) and HK5.66 cents (equivalent to approximately RMB4.82 cents) per share on 1,050,149,397 shares has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

16. Earnings Per Share

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

	2010 RMB'000	2009 RMB'000 (Restated)
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**1,013,087**	802,876

	2010 Number of shares	2009 Number of shares
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,050,149,397**	1,032,665,507
Effect of dilutive potential ordinary shares arising from the issue of a share options by the company	**11,634,003**	4,151,448
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,061,783,400**	1,036,816,955

17. 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							
Balance at 1 January 2009 as restated	811,908	5,465,137	560,774	314,995	313,393	1,241,462	8,707,669
Acquisition of a subsidiary	8,817	3,770	6,888	46	27	7	19,555
Additions	52,680	307,170	80,500	35,378	68,317	1,064,666	1,608,711
Reclassification	66,450	696,084	60,124	–	99,131	(921,789)	–
Disposal of a subsidiary	–	–	(3,037)	(270)	(130)	(1,464)	(4,901)
Disposals	(10,779)	(21,764)	(7,991)	(10,693)	(12,994)	(452)	(64,673)
Balance at 31 December 2009 as restated	929,076	6,450,397	697,258	339,456	467,744	1,382,430	10,266,361
Acquisition of subsidiaries	17,632	19,501	8,278	6,987	470	46,775	99,643
Additions	36,845	21,914	46,642	56,378	57,149	1,969,956	2,188,884
Reclassification	135,829	1,155,291	42,232	2,810	80,390	(1,416,552)	–
Transfer from investment properties	22,188	–	–	–	–	–	22,188
Derecognition/deregistration of subsidiaries	(2,285)	(36,416)	(9,859)	(4,286)	(665)	(2,044)	(55,555)
Disposals	(35,294)	(43,667)	(22,483)	(12,202)	(6,311)	–	(119,957)
Balance at 31 December 2010	1,103,991	7,567,020	762,068	389,143	598,777	1,980,565	12,401,564
DEPRECIATION AND AMORTISATION/ IMPAIRMENT							
Balance at 1 January 2009 as restated	75,565	500,432	110,966	111,478	76,089	5,512	880,042
Provided for the year	20,955	197,382	33,532	44,399	59,095	–	355,363
Impairment loss recognised	12,119	8,193	1,575	25	233	–	22,145
Eliminated on disposal of a subsidiary	–	–	(100)	–	(4)	–	(104)
Eliminated on disposals	(2,046)	(2,568)	(3,502)	(7,223)	(4,236)	–	(19,575)
Balance at 31 December 2009 as restated	106,593	703,439	142,471	148,679	131,177	5,512	1,237,871
Provided for the year	32,824	231,371	32,721	51,638	60,216	–	408,770
Impairment loss recognised	–	14,922	–	–	–	–	14,922
Eliminated on derecognition/deregistration subsidiaries	(524)	(3,162)	(2,028)	(1,248)	(412)	–	(7,374)
Eliminated on disposals	(9,276)	(15,802)	(12,393)	(9,925)	(5,352)	–	(52,748)
Balance at 31 December 2010	129,617	930,768	160,771	189,144	185,629	5,512	1,601,441
CARRYING VALUES							
Balance at 31 December 2010	974,374	6,636,252	601,297	199,999	413,148	1,975,053	10,800,123
Balance at 31 December 2009 as restated	822,483	5,746,958	554,787	190,777	336,567	1,376,918	9,028,490
Balance at 1 January 2009 as restated	736,343	4,964,705	449,808	203,517	237,304	1,235,950	7,827,627

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 end of the reporting period, except for certain land and buildings with the carrying value of RMB46,513,000 (31 December 2009: RMB25,837,000 and 1 January 2009: RMB25,617,000) which are located in Hong Kong under long lease, the remaining land and buildings are located in the PRC under medium-term lease.

17. Property, Plant and Equipment *(continued)*

At the end of the reporting period, the Group is in the process of obtaining title deeds for its buildings in the PRC amounting to approximately RMB218,649,000 (31 December 2009: RMB179,602,000 and 1 January 2009: RMB262,693,000). 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.

During the year ended 31 December 2010, the Director considered that the net realisable value of certain coal gas pipelines is immaterial and the cost for reuse outweighs the carrying values, therefore, full impairment loss of RMB14,922,000 (2009: RMB12,801,000) is recognised in profit or loss. Included in the balance as of 31 December 2009 was an impairment loss on land and buildings of RMB9,344,000.

18. Prepaid Lease Payments

	31 December 2010 RMB'000	31 December 2009 RMB'000 (Restated)	1 January 2009 RMB'000 (Restated)
The Group's prepaid lease payments comprise land in the PRC under medium-term lease	**670,672**	535,246	476,670
Analysed for reporting purposes as:			
Current portion	**12,576**	11,105	9,354
Non-current portion	**658,096**	524,141	467,316
	670,672	535,246	476,670

At the end of the reporting period, the Group is in the process of obtaining land use right certificates for the land in the PRC amounting to approximately RMB66,102,000 (31 December 2009: RMB33,724,000 and 1 January 2009: RMB20,864,000). 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.

19. Investment Properties

	RMB'000
FAIR VALUE	
At 1 January 2009	63,005
Net increase in fair value recognised in profit or loss	9,620
At 31 December 2009	72,625
Net increase in fair value recognised in profit or loss	3,408
Transfer to property, plant and equipment (Note 17)	(22,188)
At 31 December 2010	53,845

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.

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
The carrying value of investment properties shown above comprises operating leases in respect of:			
Properties in Hong Kong under long lease (note)	–	22,188	16,039
Properties in PRC under medium-term lease (note)	**53,845**	50,437	46,966
	53,845	72,625	63,005

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

19. Investment Properties *(continued)*

The fair value of the Group's investment properties at 1 January 2009 and 31 December 2009 and 2010 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty, on an open market value basis. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

As at 1 January 2009 and 31 December 2009, the Group pledged certain of its investment properties amounting to RMB29,449,000 and RMB22,188,000, respectively, to secure general banking facilities and mortgage loan granted to the Group. As at 31 December 2010, the carrying amount of the investment properties of RMB22,188,000 which were transferred as owner occupied property during the year, pledged to secure general banking facilities and mortgage loan granted to the Group has been included in Note 50.

The property rental income, net of outgoing expenses of RMB424,000 (2009: RMB120,000), earned by the Group from its investment properties, all of which is leased out under operating leases, amounted to RMB2,731,000 (2009: RMB3,502,000).

20. Goodwill

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
COST			
At beginning of the year	**222,468**	219,532	204,236
Arising on:			
Acquisition of businesses (Note 45)	**20,802**	2,936	15,296
Deregistration of a subsidiary	**(823)**	–	–
At end of the year	**242,447**	222,468	219,532
IMPAIRMENT			
At beginning and end of the year	**(50,606)**	(50,606)	(50,606)
CARRYING AMOUNTS			
At end of the year	**191,841**	171,862	168,926

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

For the purposes of impairment testing, goodwill has been allocated to the following cash generating units (CGUs). At the end of the reporting period, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of:

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Sale of piped gas business located in Lianyungang, the PRC	**17,628**	17,628	17,628
Sale of piped gas business located in Kaifeng, the PRC	**15,833**	15,833	15,833
Sale of piped gas business located in Hangzhou Xiaoshan, the PRC	**37,011**	37,011	37,011
Sale of piped gas business located in Guangdong, the PRC	**20,802**	–	
Production and sale of liquefied natural gas ("LNG") (included under sale of piped gas segment)	**15,296**	15,296	15,296
Other CGUs	**85,271**	86,094	83,158
	191,841	171,862	168,926

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.

20. 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 1.50% to 48.18% (31 December 2009: 0.15% to 23.89% and 1 January 2009: 0.46% to 26.21%), and discount rate of 10% (31 December 2009: 8% and 1 January 2009: 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.

21. Intangible Assets

	Rights of operation RMB'000	**Customer base** RMB'000	**Total** RMB'000
COST			
At 1 January 2009	474,561	42,797	517,358
Addition	8,000	–	8,000
At 31 December 2009	482,561	42,797	525,358
Addition	39,626	–	39,626
Acquired on acquisition of subsidiaries (Note 45(a))	240,970	3,533	244,503
At 31 December 2010	763,157	46,330	809,487
AMORTISATION			
At 1 January 2009	48,479	4,167	52,646
Charge for the year	21,400	1,539	22,939
At 31 December 2009	69,879	5,706	75,585
Charge for the year	29,952	1,598	31,550
At 31 December 2010	99,831	7,304	107,135
CARRYING VALUES			
At 31 December 2010	663,326	39,026	702,352
At 31 December 2009	412,682	37,091	449,773
At 1 January 2009	426,082	38,630	464,712

Notes: Rights of operation and customer base are amortised on a straight-line method over the operation periods ranging from 8 to 50 years.

22. Interests in Associates

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Cost of investment in associates			
Listed	**44,375**	–	–
Unlisted	**429,094**	308,195	285,695
Share of post-acquisition profits net of dividend received	**(2,111)**	2,667	2,016
	471,358	310,862	287,711
Deemed capital contribution			
Financial guarantees	**8,642**	4,772	4,772
Fair value adjustments on interest-free advances	**7,683**	8,246	–
	487,683	323,880	292,483
Market value of the listed equity interests in associates	**31,747**	–	–

22. Interests in Associates *(continued)*

Details of the Group's associates as at 31 December 2009 and 31 December 2010 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 2010	2009	Principal activities
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
東莞新奧莞樟燃氣有限公司 (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
東莞長安新奧燃氣有限公司 (Dongguan Chang'an Xinao Gas Company Limited)	Incorporated	The PRC	**25% (note a)**	25% (note a)	Investment in gas pipeline infrastructure and sales of piped gas
河源市管道燃氣發展有限公司 (Heyuan City Piped Gas Development Company Limited)	Incorporated	The PRC	**48.87%**	–	Investment in gas pipeline infrastructure and sale of piped gas
淮安中油天淮燃氣有限公司 (Huaian Zhongyou Tianhuai Gas Company Limited)	Incorporated	The PRC	**45%**	–	Supplies and sales of piped gas
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%**	30%	Sales of LPG
Petrovietnam Gas City Investment Development, JSC	Incorporated	Vietnam	**43.89%**	–	Sales of LPG bottled gas
山東魯新天然氣有限公司 (Shandong Luxin Xinao Gas Company Limited)	Incorporated	The PRC	**– (note e)**	30%	Investment in gas pipeline infrastructure and sales of piped 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%**	30%	Sales of LPG
上海新奧九環車用能源股份有限公司 (Shanghai Xinao Jiuhuan Vehicle Gas Joint-stock Company Limited)	Incorporated	The PRC	**54.57% (note b)**	54.57% (note b)	Sales of LPG
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 c)**	40% (note c)	Sales of compressed natural gas ("CNG")
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 LPG

22. 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 2010	2009	Principal activities
新能能源有限公司 (Xinneng Energy Company Limited)	Incorporated	The PRC	**15% (note d)**	15% (note d)	Design, construction, equipment installation and operation of a greenfield coal-to-methanol conversion plant
湛江新怡房地產開發有限公司 (Zhanjiang Xinyi Property Development Company Limited)	Incorporated	The PRC	**27%**	–	Development and operation of real estate industry and rental of self-owned property
湛江中油新奧天燃氣有限公司 (Zhanjiang Zhongyou Xinao Gas Company Limited)	Incorporated	The PRC	**49%**	–	Investment in gas pipeline infrastructure, design, installation and construction of the gas pipeline facilities, technology and consulting services for natural gas
肇慶市中石油昆侖新奧天然氣利用有限公司 (Zhaoqing City Zhongyou Kunlun Xinao Natural Gas Company Limited)	Incorporated	The PRC	**49%**	–	Sales of CNG and technology training for vehicle gas
中石化新奧(天津)能源有限公司 (Zhongshiyou Xinao (Tianjin) Energy Company Limited)	Incorporated	The PRC	**45%**	45%	Sales of piped gas

Notes:

(a) The Group holds direct interest of 25% and indirect interest in these entities through a jointly controlled entity, 東莞新奧燃氣有限公司 ("Dongguan Xinao Gas Company Limited"). The indirect interest in Dongguan Xinao Guanzhang Gas Company Limited and Dongguan Chang'an Xinao Gas Company Limited is 45% and 38% respectively.

(b) 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 in this associate appointed by the seven joint venturers and it is therefore classified as an associate of the Group.

(c) The Group holds direct interest of 40% and indirect effective interest of 16.37% through another associate in the registered capital of Shanghai 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.

(d) The Group holds 15% interest in Xinneng Energy Company Limited and has the power to appoint two directors out of a total eleven directors. Accordingly, the Directors consider that the Group exercises significant influence over this entity and it is therefore classified as an associate of the Group.

(e) The entity was ceased to be the associate of the Group as the result of the derecognition of 鄒平新奧燃氣有限公司 (Zouping Xinao Gas Company Limited or "Zouping Xinao") as a subsidiary to a jointly-controlled entity during the year ended 31 December 2010 (Note 47(a)).

22. Interests in Associates *(continued)*

Included in the interests in associates is deemed capital contribution of approximately RMB7,683,000 (31 December 2009: RMB8,246,000 and 1 January 2009: Nil) in relation to interest free advances to certain associates by the Group and goodwill of RMB75,014,000 (31 December 2009 and 1 January 2009: RMB47,668,000) arising on acquisitions of associates. The movement of goodwill is set out below.

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
At beginning of year	**47,668**	47,668	64,314
Transferred to non-current assets classified as held for sale	**–**	–	(16,646)
Arising on acquisition of associates	**27,346**	–	–
At end of year	**75,014**	47,668	47,668

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate at 5.4% per annum and average terms of 2 years.

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

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Total assets	**4,552,171**	4,925,259	4,500,187
Total liabilities	**(3,212,346)**	(3,775,066)	(3,336,910)
Net assets	**1,339,825**	1,150,193	1,163,277
Group's share of net assets of associates	**396,344**	263,194	240,043
Goodwill on acquisition of associates	**75,014**	47,668	47,668
Deemed capital contribution			
– Financial guarantees	**8,642**	4,772	4,772
– Fair value adjustments on interest-free advances	**7,683**	8,246	–
	487,683	323,880	292,483
Revenue	**1,783,307**	1,011,115	1,084,858
(Loss) profit for the year	**(102,290)**	(53,926)	17,147
Group's share of profit or loss of associates for the year	**5,459**	5,066	7,347

23. Interests in Jointly Controlled Entities

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Cost of unlisted investments	**772,381**	602,030	498,952
Shares of post-acquisition profits, net of dividends received	**587,208**	394,889	257,668
	1,359,589	996,919	756,620
Deemed capital contribution			
Financial guarantee	**1,000**	1,000	1,000
Fair value adjustments on interest-free advances	**676**	17,722	–
	1,361,265	1,015,641	757,620

23. Interests in Jointly Controlled Entities *(continued)*

Details of the Group's jointly controlled entities as at 31 December 2009 and 31 December 2010 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 2010	2009	Principal activities
濱州新奧燃氣工程有限公司 (Binzhou Xinao Gas Engineering Company Limited) ("Binzhou Xinao")	Incorporated	The PRC	**60% (notes a and b)**	–	Investment in gas pipeline infrastructure
長沙新奧燃氣發展有限公司 (Changsha Xinao Gas Development Limited)	Incorporated	The PRC	**55% (note b)**	55% (note b)	Sales of piped gas
長沙新奧遠大能源服務有限公司 (Changsha Xinao Yuanda Energy Service Company Limited)	Incorporated	The PRC	**60% (note b)**	–	Energy contract management, energy saving technology service, technology consulting, transfer and training
德化廣安天然氣有限公司 (Dehua Guangan Natural Gas Limited)	Incorporated	The PRC	**51% (note b)**	51% (note b)	Sales of piped gas
東莞新奧燃氣有限公司 (Dongguan Xinao Gas Company Limited) ("Dongguan Xinao")	Incorporated	The PRC	**55% (note b)**	55% (note b)	Investment in gas pipeline infrastructure and sales of piped gas and LPG
海寧市新欣天燃氣有限公司 (Haining City Xinxin Natural Gas Company Limited)	Incorporated	The PRC	**40% (note e)**	–	Sales of piped gas
合肥新奥中汽能源發展有限公司 (Hefei Xinao Zhongqi Energy Development Company Limited)	Incorporated	The PRC	**51% (note b)**	51% (note b)	Production, processing and operation of clean energy fuels like vehicle fuels, natural gas, LPG, directly lather and methanol. Fitting of vehicle fuel appliances, construction and operation of CNG supply facilities, operation of vehicle repair
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
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
金華市高亞天然氣有限公司 (Jinhua City Gaoya Natural Gas Company Limited)	Incorporated	The PRC	**25% (note f)**	–	Construction and operation of CNG supply facilities and sales of vehicle fuel gas
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%**	49%	Sale of gas appliances

23. 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 2010	2009	Principal activities
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
南昌中石油昆侖新奧天然氣利用有限公司 (Nanchang Zhongyou Kunlun Xinao Natural Gas Company Limited)	Incorporated	The PRC	**49%**	–	Development and promotion of environmental protection, new energy and high quality energy efficiency technology
寧波新奧燃氣有限公司 (Ningbo Xinao Gas Company Limited)	Incorporated	The PRC	**49%**	49%	Sales of piped gas
蘇州新奧燃氣有限公司 (Suzhou Xinao Company Limited)	Incorporated	The PRC	**51% (note b)**	51% (note b)	Wholesale of LPG, CNG, directly lather and methanol
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 b)**	60% (note b)	Construction and operation of CNG supply facilities and sales of vehicle fuel gas
北航新奧航務有限公司 (Xinao Harbour Company Limtied)	Incorporated	The PRC	**49%**	49%	Construction and operation of the facilities in pier
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
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
雲南新奧清潔能源有限公司 (Yunnan Xinao Clean Energy Company Limited)	Incorporated	The PRC	**– (note c)**	60% (note b)	Production of compressed energy fuels including vehicle fuels, construction and operation of CNG supply facilities and operation of vehicle repair
雲南雲投新奧燃氣有限公司 (Yunnan Yuntou Xinao Gas Company Limited) ("Yunnan Yuntou")	Incorporated	The PRC	**50%**	50%	Construction and operation of vehicle gas refuelling stations
株州新奧燃氣發展有限公司 (Zhuzhou Xinao Gas Development Company Limited) ("Zhuzhou Xinao")	Incorporated	The PRC	**55% (note d)**	55% (note d)	Sales of piped gas
淄博新奧燃氣有限公司 (Zibo Xinao Gas Company Limited) ("Zibo Xinao")	Incorporated	The PRC	**60% (note a and b)**	–	Operation of vehicle gas refuelling station
鄒平新奧燃氣有限公司 ("Zouping Xinao")	Incorporated	The PRC	**60% (note a and b)**	–	Sales of piped gas

23. Interests in Jointly Controlled Entities *(continued)*

Notes:

(a) Zouping Xinao, Binzhou Xinao and Zibo Xinao have been derecognised as subsidiaries and became the jointly controlled entities of the Group during the year ended 31 December 2010 (Note 47(a)).

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

(c) During the year ended 31 December 2010, the Group disposed of 60% equity interest in Yunnan Clean Energy to a joint controlled entity, Yunnan Yuntou for a consideration of RMB6,000,000. The net assets of Yunnan Clean Energy at the date of disposal was RMB3,135,000 and a gain on disposal of a jointly controlled entity of RMB2,865,000 was recognised in profit or loss during the year.

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

(e) The Group hold direct interest of 40% of the registered capital of Haining City Xinxin Natural Gas Company Limited ("Haining Xinxin") through a 86% owned subsidiary, 海寧新奥燃氣發展有限公司 (Haining Xinao Gas Development Company Limited). Under the joint venture agreement, all financial and operational decisions must be approved by all shareholders, therefore, Haining Xinxin is classified as a jointly controlled entity of the Group.

(f) The Group holds 25% of the registered capital of Jinhua City Gaoya Natural Gas Company Limited ("Jinhua Gaoya") as at 31 December 2010 while the remaining interests were held by another three shareholders. The board comprises of five directors, four of which are appointed by each shareholder and the fifth director is appointed by the general meeting. Under the joint venture agreement, all financial and operational decisions must be approved by all directors, therefore, Jinhua Gaoya is classified as a jointly controlled entity of the Group.

Included in the interests in jointly controlled entities is deemed capital contribution of RMB1,000,000 (31 December 2009 and 1 January 2009: RMB1,000,000) in relation to a financial guarantee contract issued by the Group, deemed capital contribution of approximately RMB676,000 (31 December 2009: RMB17,722,000 and 1 January 2009: Nil) in relation to interest-free advances to certain jointly controlled entities and goodwill of RMB94,141,000 (31 December 2009 and 1 January 2009: RMB9,141,000).

The movement of goodwill is set out below:

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
At beginning of year	**94,141**	94,141	69,521
Arising on acquisition of additional interest in a jointly controlled entity	**–**	–	24,620
At end of year	**94,141**	94,141	94,141

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate at 5.4% per annum and average terms of 2 years.

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

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Current assets	**1,086,466**	882,538	631,366
Non-current assets	**1,486,767**	981,866	815,181
Current liabilities	**1,055,499**	784,641	520,475
Non-current liabilities	**158,145**	188,383	272,382
Income	**2,393,543**	1,754,211	1,832,400
Expenses	**2,116,872**	1,543,492	1,626,880

24. Available for Sale Financial Assets

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Unlisted equity securities, at cost less impairment	**14,433**	14,056	13,956

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 the end of the reporting period 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.

25. Loan Receivable

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Represented by:			
Current portion (included in trade and other receivables)	**3,000**	3,000	3,000
Non-current portion	**6,000**	9,000	12,000
	9,000	12,000	15,000

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 on equal instalment starting from 31 March 2009 and up to 31 March 2013.

The Directors are of the opinion that the loan receivable balance is not impaired as the repayment history of the debtor is satisfactory.

26. Amounts Due From/to Jointly Controlled Entities

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Amount due from jointly controlled entities:			
Current portion	**213,585**	155,041	207,350
Non-current portion	**–**	26,644	20,000
	213,585	181,685	227,350

Included in the amounts due from jointly controlled entities was RMB19,474,000 (31 December 2009: RMB7,678,000 and 1 January 2009: Nil) arising from the deposits placed for purchases of gas by the Group from the jointly controlled entities which the Directors consider is not impaired. The balance approximates its fair value and is repayable on demand.

26. Amounts Due From/to Jointly Controlled Entities *(continued)*

Included in the amount due from/to jointly controlled entities are trade receivables amounting to RMB94,578,000 (31 December 2009: RMB88,156,000 and 1 January 2009: RMB95,016,000) and trade payables amounting to RMB140,817,000 (31 December 2009: RMB131,702,000 and 1 January 2009: RMB83,546,000) and the aged analysis presented based on invoice date is as follow:

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Trade receivables due from jointly controlled entities			
0 – 3 months	**57,971**	33,331	59,686
4 – 6 months	**12,824**	36,871	25,130
7 – 9 months	**10,069**	9,305	481
10 – 12 months	**1,990**	3,612	5,184
More than 1 year	**11,724**	5,037	4,535
	94,578	88,156	95,016
Trade payables due to jointly controlled entities			
0 – 3 months	**121,851**	30,642	70,651
4 – 6 months	**12,602**	32,237	3,910
7 – 9 months	**2,940**	15,963	2,959
10 – 12 months	**460**	13,788	1,940
More than 1 year	**2,964**	39,072	4,086
	140,817	131,702	83,546

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, the above balances are not overdue.

The amounts due from/to jointly controlled entities at 1 January 2009, and 31 December 2009 and 2010 are unsecured, interest-free and without fixed repayment terms.

For the interest-free advances to jointly controlled entities that the Group expects to recover after one year from the end of the reporting period, fair value adjustment amounting to RMB17,722,000 has been recognised as deemed capital contribution to jointly controlled entities during the year ended 31 December 2009. During the year ended 31 December 2010, the jointly controlled entities settled the interest-free advances earlier than the Group originally expected, accordingly a fair value adjustment with an amount of RMB17,046,000 was reversed and recorded as return of capital in the investment in these jointly controlled entities. For the remaining amounts due from jointly controlled entities, the Group expects the amounts will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from jointly controlled entities are not impaired as the counterparties are jointly controlled entities that are financially sound.

27. Inventories

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Construction materials	**142,371**	204,066	154,134
Gas appliances	**44,161**	34,864	32,007
Piped gas	**34,032**	19,531	37,299
Bottled LPG	**3,365**	4,709	8,440
Spare parts and consumable	**25,090**	22,876	22,180
	249,019	286,046	254,060

The cost of inventories recognised as an expense during the year was RMB7,046,643,000 (31 December 2009: RMB5,230,667,000 and 1 January 2009: RMB5,019,197,000).

28. Trade and Other Receivables

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Trade receivables (note a)	**526,131**	569,415	490,754
Less: Impairment	**(61,678)**	(76,273)	(39,231)
	464,453	493,142	451,523
Other receivables (note b):			
– current portion	**230,792**	210,706	335,901
– non-current portion	**72,439**	30,581	–
	303,231	241,287	335,901
Less: Impairment	**(43,788)**	(48,820)	(39,232)
	259,443	192,467	296,669
Notes receivable (note c)	**78,992**	37,538	186,342
Advance to suppliers, deposits and prepayments	**625,606**	515,709	496,553
Total trade and other receivables	**1,428,494**	1,238,856	1,431,087

28. Trade and Other Receivables *(continued)*

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Analysed for reporting purpose as:			
Current portion	**1,356,055**	1,208,275	1,431,087
Non-current portion	**72,439**	30,581	–
	1,428,494	1,238,856	1,431,087

Notes:

(a) Included in trade receivables are retentions held by customers for contract work with an average retention period of one year amounting to RMB256,000 (31 December 2009: RMB1,347,000 and 1 January 2009: RMB1,892,000).

(b) Included in other receivables are amount due from affiliates of non-controlling shareholders of subsidiaries of RMB69,465,000 (31 December 2009: RMB32,119,000 and 1 January 2009: Nil). The Directors reassess the recoverability of such amounts and consider that such amounts will be recoverable after one year from the end of the reporting period. Impairment loss of RMB1,315,000 (31 December 2009: RMB1,538,000 and 1 January 2009: Nil) has been recognised in profit or loss for the year ended 31 December 2010.

(c) The notes receivable were endorsed for guarantee payments by PRC banks and the default risk is considered to be minimal.

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, presented based on invoice date at the end of the reporting period:

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
0-3 months	**378,052**	352,018	280,300
4-6 months	**50,346**	56,237	101,705
7-9 months	**16,018**	32,825	40,811
10-12 months	**13,206**	23,411	16,423
More than 1 year	**6,831**	28,651	12,284
	464,453	493,142	451,523

The following is an aged analysis of notes receivable:

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
0-3 months	**64,616**	37,538	179,845
4-6 months	**14,376**	–	6,497
	78,992	37,538	186,342

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 the end of the reporting period is good as the repayment history of the debtors is satisfactory.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB454,589,000 (31 December 2009: RMB398,402,000 and 1 January 2010: RMB401,498,000) 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 67 days (2009: 71 days).

28. Trade and Other Receivables *(continued)*

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 end of the reporting period.

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Within one year	**453,639**	398,365	401,151
Over one year	**950**	37	347
Total	**454,589**	398,402	401,498

Movements in the impairment on trade receivables

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Balance at beginning of the year	**76,273**	39,231	96,953
Impairment losses recognised on receivables	**37,953**	59,885	30,206
Amounts recovered during the year	**(49,714)**	(12,367)	(51,009)
Amounts written off as uncollectible	**(2,834)**	(10,476)	(36,919)
Balance at end of the year	**61,678**	76,273	39,231

All trade 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.

Movements in the impairment on other receivables

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Balance at beginning of the year	**48,820**	39,232	33,363
Impairment losses recognised on receivables	**1,315**	10,130	7,875
Amounts recovered during the year	**(6,347)**	(542)	(2,006)
Balance at end of the year	**43,788**	48,820	39,232

All other receivables are assessed to be impaired individually, as the Directors are of the opinion that certain counterparties have financial difficulties in repaying the amounts, impairment losses amounting to RMB1,315,000 (2009: RMB10,130,000) had been made during the year ended 31 December 2010.

The Directors are of the opinion that except for those other receivable that are impaired, the remaining other receivable are not impaired as the counterparties are either affiliates of non-controlling shareholders of subsidiaries or with satisfactory repayment history.

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

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Contract costs incurred plus recognised profits	**718,073**	651,076	625,830
Less: Progress billings	**(1,075,999)**	(974,559)	(596,118)
	(357,926)	(323,483)	29,712
Analysed for reporting purposes as:			
Amounts due from customers for contract work	**306,913**	241,415	495,318
Amounts due to customers for contract work	**(664,839)**	(564,898)	(465,606)
	(357,926)	(323,483)	29,712

30. Amounts Due From/to Associates

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Amounts due from associates:			
Current portion	**11,501**	4,301	17,630
Non-current portion	**20,700**	71,795	–
	32,201	76,096	17,630

Included in the amount due from/to associates are trade receivables amounting to RMB8,438,000 (31 December 2009: RMB12,057,000 and 1 January 2009: RM6,083,000) and trade payables amounting to RMB1,699,000 (31 December 2009: RMB2,628,000 and 1 January 2009: RMB2,669,000) and the aged analysis presented based on the invoice date at the end of the reporting period is as follow:

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Trade receivables due from associates			
0 – 3 months	**3,716**	6,474	3,703
4 – 6 months	**735**	1,920	683
7 – 9 months	**671**	237	912
10 – 12 months	**49**	1,625	680
More than 1 year	**3,267**	1,801	105
	8,438	12,057	6,083
Trade payables due to associates			
0 – 3 months	**1,513**	2,270	669
4 – 6 months	**30**	69	–
7 – 9 months	**24**	289	–
10 – 12 months	**33**	–	–
More than 1 year	**99**	–	–
	1,699	2,628	669

30. Amounts Due From/to Associates *(continued)*

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 amounts due from/to associates are unsecured, interest-free and repayable on demand.

For the interest-free advances to associates that the Group expects to recover after one year from the end of the reporting period, fair value adjustment amounting to RMB8,246,000 has been recognised as deemed capital contribution to associates during the year ended 31 December 2009. During the year ended 31 December 2010, the associates settled the interest-free advances earlier than the Group expected, accordingly a fair value adjustment with an amount of RMB563,000 was reversed and recorded as return of capital in the investment in the associates. The Group expects the remaining amounts due from associates will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from associates are not impaired as the counterparties are associates that are financially sound.

31. Amounts Due From Related Companies

	2010			2009		
	Balance at 31.12.2010 RMB'000	**Balance at 1.1.2010 RMB'000**	**Maximum amount outstanding during the year RMB'000**	Balance at 31.12.2009 RMB'000	Balance at 1.1.2009 RMB'000	Maximum amount outstanding during the year RMB'000
Amounts due from non-controlling shareholders of subsidiaries with significant influence	**23,464**	**25,370**	**33,869**	25,370	33,465	34,538
Amounts due from companies controlled by a major shareholder and director (note a)	**9,833**	**25,896**	**30,233**	25,896	23,557	30,593
	33,297	**51,266**		51,266	57,022	

Analysed for reporting purposes as:

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Current portion (note b)	**12,808**	16,684	57,022
Non-current portion (note c)	**20,489**	34,582	–
	33,297	51,266	57,022

Notes:

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

(b) The amounts due from related companies are unsecured, interest-free and repayable on demand. The Group expects the amounts will be recoverable within one year from the end of the reporting period.

(c) The non-current amounts due from related companies represent advances to non-controlling shareholders of certain subsidiaries of the Company. The amounts are unsecured, interest-free and will be settled through future distribution of dividend by the relevant subsidiaries to the non-controlling shareholder. The Directors consider that the balances will not be repayable within one year, therefore, they are classified as non-current assets. Fair value adjustment amounting to RMB7,350,000 in respect of the interest-free advances to non-controlling shareholders of subsidiaries, calculated by using an effective interest rate at 5.40% per annum and an average term of 2 years, has been recognised in profit or loss in the year ended 31 December 2009. During the year ended 31 December 2010, unwinding of imputed interest of RMB670,000 and a fair value adjustment due to subsequent settlement of RMB3,912,000 has been included in profit or loss.

31. Amounts Due From Related Companies *(continued)*

Included in the amounts due from related companies are trade receivables amounting to RMB11,174,000 (31 December 2009: RMB29,121,000 and 1 January 2009: RMB24,913,000) and the aged analysis presented based on invoice date at the end of the reporting period is as follow:

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
0 – 3 months	**7,271**	1,238	4,558
4 – 6 months	**640**	1,556	776
7 – 9 months	**1,504**	1,036	2,227
10 – 12 months	**–**	4,847	597
More than 1 year	**1,759**	20,444	16,755
	11,174	29,121	24,913

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.

For the amounts due from companies controlled by a major shareholder and director, the counterparties are related companies that are financially sound and for the amounts due from non-controlling shareholders of subsidiaries, the amounts will be settled through future distribution of dividend by subsidiaries, therefore, the Directors are of the opinion that the amounts due from related companies are not impaired.

32. Restricted Bank Deposits

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Current portion	**64,891**	118,270	79,817
Non-current portion	**5,305**	2,200	–
	70,196	120,470	79,817
Bank deposits secured for:			
Bills facilities	**17,570**	97,370	39,430
Purchase contracts with suppliers	**45,726**	20,900	39,987
Rights of operations	**6,900**	2,200	400
	70,196	120,470	79,817

Restricted bank deposits classified as current assets represent the bank deposits pledged to banks to secure certain bills facilities granted to the Group by certain banks, purchase contracts with suppliers and deposits pledged to local government to secure the rights of operation. Restricted bank deposits classified as non-current assets represent the bank deposits pledged to local government to secure the rights of operation. As at 31 December 2010, the restricted bank deposits carry fixed interest rate range from 0.36% (31 December 2009: 0.36% and 1 January 2009: 0.36% to 1.98%) per annum. The restricted bank deposits will be released upon the settlement of relevant bill facilities and the expiry of purchase contracts or operation rights.

33. 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 0.36% to 2.25% (31 December 2009: 0.36% to 1.71% and 1 January 2009: 0.72% to 3.06%) per annum as at 31 December 2010. The bank balances denominated in RMB are deposited with banks in the PRC.

At the end of the reporting period, the cash and cash equivalents denominated in foreign currencies other than the functional currency of respective group entities is RMB52,575,000 (31 December 2009: RMB96,889,000 and 1 January 2009: RMB2,103,000), of which RMB29,568,000 (31 December 2009: RMB69,491,000 and 1 January 2009: RMB849,000) and RMB23,007,000 (31 December 2009: RMB27,398,000 and 1 January 2009: RMB1,254,000) are denominated in USD and HKD respectively.

34. Trade and Other Payables

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Trade payables	**1,263,307**	1,124,627	1,014,053
Advances received from customers	**1,783,137**	1,158,315	1,122,741
Accrued charges and other payables	**526,244**	488,632	615,486
	3,572,688	2,771,574	2,752,280

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Trade payables aged:			
0 – 3 months	**844,645**	631,472	604,911
4 – 6 months	**174,909**	144,349	157,560
7 – 9 months	**74,996**	133,426	84,548
10 – 12 months	**26,436**	59,929	54,523
More than 1 year	**142,321**	155,451	112,511
	1,263,307	1,124,627	1,014,053

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

35. Amounts Due to Related Companies

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Amounts due to non-controlling shareholders of subsidiaries with significant influence	**7,457**	2,438	2,366
Amounts due to companies controlled by a controlling shareholder and director (note a)	**23,711**	5,151	19,469
Amount due to a shareholder	**9,969**	13,672	13,672
	41,137	21,261	35,507

Note:

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

The amounts due to related companies of RMB41,137,000 (31 December 2009: RMB21,261,000 and 1 January 2009: RMB35,507,000) are unsecured, interest-free and repayable on demand.

35. Amounts Due to Related Companies *(continued)*

Included in the amounts due to related companies are trade payables amounting to RMB29,922,000 (31 December 2009: RMB5,871,000 and 1 January 2009: RMB20,398,000) and the aged analysis presented based on invoice date at the end of the reporting period is as follow:

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
0 – 3 months	**23,355**	1,167	16,721
4 – 6 months	**1,864**	174	–
7 – 9 months	**118**	113	–
10 – 12 months	**171**	694	2,030
More than 1 year	**4,414**	3,723	1,647
	29,922	5,871	20,398

36. Bank and Other Loans

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Bank loans			
Secured	**1,400,404**	1,573,706	1,848,086
Unsecured	**2,608,023**	2,018,402	1,441,046
	4,008,427	3,592,108	3,289,132
Other loans			
Secured	**31,454**	36,000	40,545
Unsecured	**96,493**	96,493	96,493
	127,947	132,493	137,038
	4,136,374	3,724,601	3,426,170
The bank and other loans are repayable:			
Within one year	**1,568,742**	675,796	1,239,450
More than one year, but not exceeding two years	**560,443**	349,817	65,863
More than two year, but not exceeding five years	**1,275,745**	1,406,628	494,252
More than five years	**731,444**	1,292,360	1,626,605
	4,136,374	3,724,601	3,426,170
Less: Amounts due within one year shown under current liabilities	**(1,568,742)**	(675,796)	(1,239,450)
Amounts due after one year	**2,567,632**	3,048,805	2,186,720

All the bank and other loans are denominated in the functional currency of respective group entities except for RMB1,158,973,000 (31 December 2009: RMB1,092,512,000 and 1 January 2009: RMB34,174,000) and RMB11,404,000 (31 December 2009: RMB13,706,000 and 1 January 2009: RMB125,786,000) which are denominated in USD and HKD respectively.

The secured bank and other loans are secured by property, plant and equipment, investment properties and rights to fee income of certain subsidiaries and jointly controlled entities as set out in Notes 50 and 51.

36. Bank and Other Loans *(continued)*

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

At 31 December 2010

	Maturity date	Effective interest rate per annum	Carrying amount RMB'000
Fixed-rate borrowings			
4.78% unsecured RMB bank loan	10/1/2011–29/9/2011	**4.83%**	**676,050**
3.38%–5% unsecured RMB other loans	17/06/2011-17/06/2012	**3.38% – 5%**	**96,493**
Total fixed-rate borrowings			**772,543**
Floating-rate borrowings			
Unsecured RMB bank loan at PBOC base rate	1/3/2011–15/12/2020	**5.4%**	**773,000**
Secured RMB bank loan at PBOC base rate	31/7/2011–20/12/2020	**5.6%**	**1,389,000**
Unsecured USD bank loan at London Inter Bank Offer Rate ("LIBOR") plus 1.5%–2.2%	11/6/2011–30/11/2013	**2.42%**	**1,158,973**
Secured HKD bank loan at 2.5%–2.95% below Prime Rate	11/7/2013–27/9/2022	**2.7%**	**11,404**
Secured RMB other loan at prevailing market rate	15/12/2014–12/6/2017	**2.23%**	**31,454**
Total floating-rate borrowings			**3,363,831**
Total borrowings			**4,136,374**

36. Bank and Other Loans *(continued)*

At 31 December 2009

	Maturity date	Effective interest rate per annum	Carrying amount RMB'000
Fixed-rate borrowings			
4.78%–5.04% unsecured RMB bank loan	26/1/2010–27/2/2010	4.91%	615,890
3.38%–5% unsecured RMB other loans	17/06/2011-17/06/2012	3.38%–5%	96,493
Total fixed-rate borrowings			712,383
Floating-rate borrowings			
Unsecured RMB bank loan at PBOC base rate	20/3/2015–15/12/2020	4.55%	310,000
Secured RMB bank loan at PBOC base rate	10/6/2010–20/12/2020	6.28%	1,560,000
Unsecured USD bank loan at LIBOR plus 1.5%–2.2%	11/6/2011–30/11/2013	2.9%	1,092,512
Secured HKD bank loan at 2.5%–2.95% below Prime rate	11/7/2013–27/9/2022	3.50%	13,706
Secured RMB other loan at prevailing market rate	15/12/2014–12/6/2017	4.1%	36,000
Total floating-rate borrowings			3,012,218
Total borrowings			3,724,601

36. Bank and Other Loans *(continued)*

At 1 January 2009

	Maturity date	Effective interest rate per annum	Carryin 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 LIBOR plus 1.5%	15/6/2009-15/12/2009	5.98%	34,174
Secured HKD bank loan of HKD125,000,000 at Hong Kong Inter Bank Offer Rate plus 0.75%-1.15%	12/6/2009	2.58%	110,236
Secured HKD bank loan at 2.5%-2.95% below Prime Rate	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

37. Short-Term Debentures

Pursuant to the approval [2009] No. CP81 issued by National Association of Financial Market Institutional Investors ("NAFMII") dated 12 August 2009, NAFMII approved a wholly-owned subsidiary of the Company, 新奧（中國）燃氣投資有限公司 (Xinao (China) Gas Investment Company Limited, ("Xinao (China)") to issue short-term debentures with a maximum limit of RMB1,600,000,000 up to 12 August 2011.

On 27 August 2009, Xinao (China) issued the short-term debenture to third party with face value of RMB800,000,000. The unsecured debenture is unsecured, carried interest at 3.15% per annum and was repaid during the year ended 31 December 2010.

On 3 August 2010, Xinao (China) issued the short-term debenture to third party with face value of RMB800,000,000. The unsecured debenture is unsecured, carried interest at 3.27% per annum and is repayable on 5 August 2011.

The balance as at 1 January 2009 represents the short-term debenture issued to third party with face value of RMB600,000,000 and the accrued interest of RMB30,043,000. The amount was unsecured, carried interest at 5.95% per annum and was repaid during the year ended 31 December 2009.

37. Short-Term Debentures *(continued)*

Details of the outstanding balance at the end of the reporting period are as follows:

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Short term debentures issued during the year and repayable within one year:			
Principal	**800,000**	800,000	600,000
Interest payable	**10,607**	8,699	30,043
	810,607	808,699	630,043

38. Financial Guarantee Liability

As at 31 December 2010, the Group had outstanding guarantees issued to banks to secure loan facilities granted to an associate to the extent of RMB45,000,000 (31 December 2009: RMB30,000,000 and 1 January 2009: RMB60,000,000) for one to four-year loans, of which the amounts have been utilised at the end of the reporting period. The carrying amount of financial guarantee contracts as at 31 December 2010 is RMB5,544,000 (31 December 2009: RMB3,383,000 and 1 January 2009: RMB4,384,000).

39. Deferred Income

	Subsidies received from customers *RMB'000* *(note a)*	**Connection fee received from customers** *RMB'000* *(note b)*	**Total** *RMB'000*
GROSS			
At 1 January 2009	20,770	–	20,770
Additions	–	286,749	286,749
At 31 December 2009 and 1 January 2010	20,770	286,749	307,519
Additions	–	259,070	259,070
At 31 December 2010	20,770	545,819	566,589
RECOGNITION			
At 1 January 2009	–	–	–
Release to profit or loss	2,989	8,115	11,104
At 31 December 2009 and 1 January 2010	2,989	8,115	11,104
Release to profit or loss	2,989	20,761	23,750
At 31 December 2010	5,978	28,876	34,854
CARRYING VALUES			
At 31 December 2010	14,792	516,943	531,735
At 31 December 2009	17,781	278,634	296,415
At 1 January 2009	20,770	–	20,770

39. Deferred Income *(continued)*

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Analysed for reporting purpose			
Current liabilities	**29,109**	16,290	692
Non-current liabilities	**502,626**	280,125	20,078
	531,735	296,415	20,770

(a) The balance represented the subsidies received from the industrial customers to subsidise the construction cost of the main gas pipelines to the gas provision site and the gas storage. Both customers do not restrict the Group to use the assets constructed for the use of other customers but the Group are committed to provide the gas to these customers for a period from 5 to 20 years. Accordingly, the Group has deferred the subsidies received and released to the profit and loss upon the completion of the assets in 2009 over the shorter of the committed gas provision period and the useful lives of the related assets.

(b) Since 2009, the PRC local governments in certain provinces in the PRC has issued relevant notice to the Group's subsidiaries governing the subsidiaries that an amount of the connection fee received by the Group's subsidiaries from its customers are for the construction cost of the Group's main gas pipelines. The Directors consider that the arrangement indicates that the subsidiaries are required to provide the customer with ongoing access to a supply of gas. As the agreement under such arrangement does not specify a period for provision of the ongoing access to a supply of gas, fees received are deferred and will release to the profit or loss over the estimated useful lives of the assets constructed.

40. Share Capital

	31 December 2010 Number of shares	31 December 2009 Number of shares	1 January 2010 Number of shares	31 December 2010 HK$'000	31 December 2009 HK$'000	1 January 2010 HK$'000
Shares of HK$0.10 each						
Authorised:						
At beginning and end of the year	**3,000,000,000**	3,000,000,000	3,000,000,000	**300,000**	300,000	300,000
Issued and fully paid:						
At beginning of the year	**1,050,149,397**	1,009,759,397	1,009,759,397	**105,015**	100,976	100,976
Issue of shares on exercise of share options	**–**	40,390,000	–	**–**	4,039	–
At end of the year	**1,050,149,397**	1,050,149,397	1,009,759,397	**105,015**	105,015	100,976

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Presented in financial statements as:			
At beginning of the year	**109,879**	106,318	106,318
Issue of shares on exercise of share options	**–**	3,561	–
At end of the year	**109,879**	109,879	106,318

On 8 June 2009, 40,390,000 shares were issued at exercise price of HK$6.65 per ordinary share in relation to the exercise of all outstanding share options as at 31 December 2008. These shares rank pari passu with the then existing shares in all respects.

41. Guaranteed Notes

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Guaranteed notes	**1,315,932**	1,351,209	1,346,927

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

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

42. Deferred Taxation

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
		(Restated)	(Restated)
Deferred tax assets	**130,954**	33,678	–
Deferred tax liabilities	**(225,034)**	(164,237)	(143,215)
	(94,080)	(130,559)	(143,215)

The following are the major deferred tax assets and 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)	**Deferred income** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2009	12,648	91,790	26,842	23,112	(1,940)	(1,579)	150,873
Effect of change in accounting policy (Note 3 and Note 4)	(7,658)	–	–	–	–	–	(7,658)
At 1 January 2009 as restated	4,990	91,790	26,842	23,112	(1,940)	(1,579)	143,215
(Credit) charge to profit or loss	–	(4,666)	9,332	16,259	(33,581)	–	(12,656)
At 31 December 2009	4,990	87,124	36,174	39,371	(35,521)	(1,579)	130,559
Acquisition of business (Note 45)	–	59,876	–	–	–	–	59,876
Reversal upon payment of withholding tax	–	–	–	(15,190)	–	–	(15,190)
(Credit) charge to profit or loss	–	(4,850)	7,811	12,712	(97,179)	341	(81,165)
At 31 December 2010	4,990	142,150	43,985	36,893	(132,700)	(1,238)	94,080

42. Deferred Taxation *(continued)*

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 certain 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.

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of certain PRC subsidiaries amounting to RMB190,003,000 (31 December 2009: RMB113,164,000 and 1 January 2009: RMB54,678,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses of RMB1,393,217,000 (2009: RMB1,119,071,000) 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 be expired in the following year ending 31 December:

	2010 **RMB'000**	2009 RMB'000
2010	**–**	24,714
2011	**67,295**	87,524
2012	**202,134**	205,974
2013	**363,191**	417,920
2014	**361,531**	382,939
2015	**399,066**	–
	1,393,217	1,119,071

At the end of the reporting period, the Group has other deductible temporary differences of RMB757,644,000 (31 December 2009: RMB583,976,000),which are mainly arising from impairment of trade and other receivable and unrealised profit within the Group. No deferred tax asset has been recognised in relation to such other deductible temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilised.

43. Deposits Paid for Investments

The deposits paid for investment as at 31 December 2010 of RMB30,000,000 was related to a proposed acquisition of a company located in Baoding City, PRC which is engaged in the sales of LPG and piped gas. The acquisition was in the negotiation stage at the end of the reporting period.

Included in the deposits paid for investments as at 1 January 2009 and 31 December 2009 of RMB83,209,000 and RMB62,200,000 respectively were related to acquisitions of various subsidiaries which had been completed at the end of the reporting period. The remaining deposits of RMB13,019,000 included in the balance as at 1 January 2009 was refunded to the Group during the year ended 31 December 2009 as the proposed acquisitions did not materialise.

44. Share Options

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. At 1 January 2009, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 40,390,000 representing 4.0% of the shares of the Company in issue as at that date. No share option is outstanding as at 31 December 2009.

On 14 June 2010, the Company granted share options to directors and certain employees ("Grantees") to subscribe for a total of 33,490,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 21 May 2002, subject to acceptance by the Grantees.

Among the share options granted above, 14,810,000 share options were granted to the Directors to subscribe for a total of 14,810,000 shares in the Company and 18,680,000 share options were granted to certain employees of the Group to subscribe 18,680,000 shares in the Company.

44. Share Options *(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:

	Date of grant	Vesting period	Exercise period	Exercise price	Number of options: Outstanding at 1.1.2010	Granted during the year	Exercised during the year	Outstanding at 31.12.2010
Tranche 1	14.6.2010	14.6.2010 to 13.12.2010	14.12.2010 to 13.6.2020	HK$16.26	–	16,745,000	–	16,745,000
Tranche 2	14.6.2010	14.6.2010 to 13.6.2012	14.6.2012 to 13.6.2020	HK$16.26	–	16,745,000	–	16,745,000
					–	33,490,000	–	33,490,000
Exercisable at the end of the year								16,745,000
Weighted average exercise price					–	HK$16.26	–	HK$16.26

	Date of grant	Exercise period	Exercise price	Number of options: Outstanding at 1.1.2009	Exercised during the year	Outstanding at 31.12.2009
Directors	15.3.2006	16.9.2006 – 15.3.2016	HK$6.65	5,200,000	(5,200,000)	–
	15.3.2006	16.3.2008 – 15.3.2016	HK$6.65	13,000,000	(13,000,000)	–
Employees	15.3.2006	16.9.2006 – 15.3.2016	HK$6.65	6,340,000	(6,340,000)	–
	15.3.2006	16.3.2008 – 15.3.2016	HK$6.65	15,850,000	(15,850,000)	–
				40,390,000	(40,390,000)	–
Exercisable at the end of the year						–
Weighted average exercise price				HK$6.65	HK$6.65	–

The closing price of the Group's shares immediately before 14 June 2010, the date of grant, was HK$16.22 per share.

Exercise price of the share options granted is HK$16.26 per share, which represents the highest of (i) the closing price of HK$16.26 per share as stated in the daily quotations sheet of the Stock Exchange on 14 June 2010, being the date of grant; (ii) the average closing price of HK$15.04 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the Date of Grant; and (iii) the nominal value of the share.

The Group recognised share-based expenses of RMB101,313,000 in the year ended 31 December 2010. The total fair value of the options calculated by using the binomial model was HK$193,297,000.

44. Share Options *(continued)*

The following assumptions were used to calculation the fair value of share options:

Spot price	HK$16.26
Exercise price	HK$16.26
Risk free rate	2.421%
Expected volatility	49.23%
Expected dividend yield	1.37%
Early exercise behaviour	150% of the Exercise Price

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At the end of each reporting date, the Group revises 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 the share option reserve.

45. Acquisition of Businesses

(a) Acquisition during the year ended 31 December 2010

On 11 February 2010, the Group acquired 100% of the registered capital of Guangzhou Fudu at a total cash consideration of RMB268,000,000. Guangzhou Fudu is a group of companies engaging in the sales of piped gas in Huadu municipal, Guangdong.

On 25 March 2010, the Group acquired 80% of the registered capital of Panjin Shengtai at a cash consideration of approximately RMB12,600,000. Panjin Shengtai is a group of companies engaging in the sales of piped gas.

Guangzhou Fudu and Panjin Shengtai were acquired by the Group with the objective to significantly improving market coverage in Guangdong and Liaoning respectively, and obtaining contribution arising from gas supply to industrial centre.

Consideration transferred

	Guangzhou Fudu RMB'000	**Panjin Shengtai** RMB'000
Cash consideration paid	227,800	10,080
Amount not yet paid and included in other payable	40,200	2,520
	268,000	12,600

Acquisition-related costs amounting to RMB73,000 have been excluded from the cost of acquisition and have been recognised as administrative expenses in the profit or loss for the year ended 31 December 2010.

45. Acquisition of Businesses *(continued)*

(a) Acquisition during the year ended 31 December 2010 *(continued)*

The fair value of assets and liabilities recognised at the date of acquisition

	Guangzhou Fudu RMB'000	Panjin Shengtai RMB'000
Current assets		
Cash and cash equivalents	24,887	1,649
Trade and other receivables	55,487	1,025
Inventories	4,665	312
Non-current assets		
Property, plant and equipment	46,788	5,042
Intangible assets-rights of operation	227,667	13,303
Intangible assets-customer base	3,533	–
Prepaid lease payments	1,726	–
Current liabilities		
Trade and other payables	(51,005)	(4,513)
Bank and other loans	(10,000)	–
Non-current liabilities		
Deferred tax liabilities	(56,550)	(3,326)
	247,198	13,492

The fair value of intangible assets is determined based on the valuation report issued by an independent professional valuer and the management reasonable estimation in investment evaluation due diligence.

The trade and other receivables of RMB56,512,000 in aggregate acquired set out above included deposits and prepayments of RMB9,376,000. The fair value of the remaining trade and other receivables amounting to RMB47,136,000 in aggregate is estimated to be the same as the gross contractual amounts of these receivables. The Directors considered that all acquired receivables will be recoverable.

Goodwill arising on acquisition

	Guangzhou Fudu RMB'000	Panjin Shengtai RMB'000
Consideration transferred	268,000	12,600
Plus: non-controlling interests	–	892
Less: fair value of identified net assets acquired	(247,198)	(13,492)
Goodwill arising on acquisition	20,802	–

Non-controlling interests

During the year, the Group has elected to measure non-controlling interests at the share of the identifiable net assets of the acquirees at the respective acquisition date.

The non-controlling interest (20%) of Panjin Shengtai recognised at the acquisition date was measured based on the proportionate share of the recognised amounts of the acquirees' identifiable net assets was amounted to acquirees' to RMB892,000.

45. Acquisition of Businesses *(continued)*

(a) Acquisition during the year ended 31 December 2010 *(continued)*

Goodwill arising on the acquisition of Guangzhou Fudu because the acquisition included the expected additional industrial customers resulting from the development of the Guangzhou Huadu Automobile Industry Zone within the area of operations of Guangzhou Fudu in the foreseeable future. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	Guangzhou Fudu RMB'000	Panjin Shengtai RMB'000
Consideration paid in cash	(227,800)	(10,080)
Less: cash and cash equivalent balances acquired	24,887	1,649
	(202,913)	(8,431)

Impact of acquisition on the results of the Group

Included in the profit for the year is RMB13,954,000 attributable to Guangzhou Fudu, and revenue for the year includes RMB140,253,000 in respect of Guangzhou Fudu. Included in the profit for the year is a loss of RMB1,754,000 attributable to Panjin Shengtai, and revenue for the year includes RMB550,000 in respect of Panjin Shengtai.

Had the acquisition of Guangzhou Fudu and Panjin Shengtai been effected at 1 January 2010, the revenue of the Group for the year ended 31 December 2010 would have been RMB11,366,773,000, and the profit for the year would have been RMB1,402,722,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2010, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had Guangzhou Fudu and Panjin Shengtai been acquired at the beginning of the current reporting period, the Directors have calculated depreciation and amortisation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

(b) Acquisition during the year ended 31 December 2009

On 19 October 2009, the Group acquired 90% of the registered capital of 長沙新奧熱力有限公司 (Changsha Xinao Heat Energy Company Limited) (formerly known as 湖南瀏陽工業園開發投資有限公司 or "Hunan Liuyang") which is engaged in sales of heat energy at a cash consideration of approximately RMB21,897,000. This transaction has been accounted for using the purchase method of accounting.

45. Acquisition of Businesses *(continued)*

(b) Acquisition during the year ended 31 December 2009 *(continued)*

The fair value of assets and liabilities, the amounts of which approximates to the carrying values immediately before the acquisition, acquired in the transaction is set out as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	19,555
Available-for-sale financial assets	100
Inventories	1,199
Trade and other receivables	1,373
Cash and cash equivalents	344
Trade and other payables	(1,503)
	21,068
Non-controlling interests	(2,107)
Goodwill arising on acquisition	2,936
Total consideration satisfied by cash	21,897
Net cash outflow arising on acquisition:	
Consideration paid in cash	21,897
Less: Cash and cash equivalents balances acquired	(344)
	21,553

The goodwill arising from the acquisition of Hunan Liuyang was attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

Hunan Liuyang contributed a loss of RMB67,000 and revenue of RMB2,682,000 to the Group for the period between the date of acquisition and the year ended 31 December 2009.

If the above acquisitions had been completed on 1 January 2009, total group revenue for the year ended 31 December 2009 would have been RMB8,423,953,000 and profit for the year ended 31 December 2009 would have been RMB1,067,204,000. 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 2009, nor is it intended to be a projection of future results.

46. Acquisition of Assets Through Acquisitions of Subsidiaries

To facilitate with the Group's overall business strategy, the Group will from time to time liaise the local PRC government and potential vendor to acquire the existing gas connection and related assets. During the year ended 31 December 2010, the Group has acquired assets through the acquisitions of the following subsidiaries.

(a) On 1 January 2010, the Group acquired 100% of the registered capital of 安徽施凱清潔能源有限公司 (Anhui Shikai Clean Energy Company Limited) ("Anhui Shikai") at a cash consideration of approximately RMB3,300,000. The Group has already paid the consideration in the previous year. Anhui Shikai was engaged in operations of vehicle gas refuelling station. After completion of the acquisition, Anhui Shikai has been deregistered and all the assets and liabilities of Anhui Shikai were transferred to 六安新奥燃氣有限公司. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the assets and liabilities acquired are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	3,167
Trade and other receivables	140
Trade and other payables	(7)
Total consideration satisfied by cash paid in previous year	3,300

46. Acquisition of Assets Through Acquisitions of Subsidiaries *(continued)*

(b) On 29 January 2010, the Group acquired 80% of the registered capital of 山東七星液化石油氣有限責任公司 (Shandong Qixing Liquefied Petroleum Company Limited) ("Shandong Qixing") at a cash consideration of approximately RMB29,000,000, which was paid in previous year. Shandong Qixing is engaged in sales of LPG. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the assets and liabilities acquired are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	9,302
Prepaid lease payments	19,950
Inventories	53
Trade and other receivables	461
Cash and cash equivalents	5,054
Trade and other payables	(2,693)
	32,127
Non-controlling interests	(3,127)
Total consideration satisfied by cash paid in previous year	29,000

(c) On 29 January 2010, the Group acquired 72.8% of the registered capital of 江蘇大通管輸天然氣有限公司 (Jiangsu Datong Natural Gas Transmission Company Limited) ("Jiangsu Datong") at a cash consideration of approximately USD9,362,400 (approximately RMB63,928,000). Jiangsu Datong is still in development stage and is established for the purpose of the construction of gas pipelines. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the assets and liabilities acquired are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	16,516
Trade and other receivables	4,154
Cash and cash equivalents	62,418
Trade and other payables	(393)
	82,695
Non-controlling interests	(18,767)
Total consideration satisfied by cash	63,928

(d) On 30 March 2010, the Group acquired 94% of the registered capital of 惠州新鑫新能源有限公司 (Huizhou Xinxin Energy Company Limited") ("Huizhou Xinxin") at a cash consideration of RMB95,880,000. Huizhou Xinxin has not yet commenced operations and it holds a land which can be used for construction of storage room for LPG. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the assets and liabilities acquired are as follows:

	RMB'000
Net assets acquired:	
Prepaid lease payments	97,595
Trade and other receivables	31
Cash and cash equivalents	3
	97,629
Non-controlling interests	(1,749)
Total consideration satisfied by cash	95,880

46. Acquisition of Assets Through Acquisitions of Subsidiaries *(continued)*

(e) On 7 April 2010, the Group acquired 85% of the registered capital of 懷化新奧燃氣有限公司 (Huaihua Xinao Gas Company Limited) ("Huaihua Xinao") at a cash consideration of approximately RMB31,730,000. Huaihua Xinao is engaged in gas pipeline infrastructure and sales of gas equipment and appliances. Huaihua Xinao had not yet commenced operation as at acquisition date. The transaction was accounted for acquisition of assets through acquisition of a subsidiary and the assets and liabilities acquired are as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	18,828
Intangible assets-rights of operation	15,726
	34,554
Non-controlling interests	(2,824)
Total consideration satisfied by cash	31,730

47. Derecognition/Deregistration/Disposal of Subsidiaries

(a) On 28 February 2010, a wholly owned subsidiary, Zouping Xinao (see Note 23(a)), increased its registered capital of USD800,000 (approximately RMB5,464,000) at a total cash consideration of RMB17,946,000 by introduction of new joint venture partner 山東實華天然氣有限公司 (Shandong Shihua Natural Gas Company Limited) ("Shandong Shihua") of which RMB5,464,000 and RMB12,482,000 were recorded, respectively, as the increases in the registered capital and capital reserve of Zouping Xinao. Shandong Shihua engages in gas pipeline infrastructure and sales of gas of piped gas and is the supplier of Zouping Xinao.

According to the newly signed articles of association of Zouping Xinao, the Group and Shandong Shihua have joint control on the business of Zouping Xinao. In addition, the Group will own the entire undistributed profits of Zouping Xinao as at date of the establishment of joint control. Accordingly, the Group's interests in the assets and liabilities in Zouping Xinao were derecognised upon the joint control was established, of which the Group hold 60% of equity interest.

The net assets of Zouping Xinao derecognised at the date of establishment of joint control were as follows:

	RMB'000
Net assets derecognised:	
Property, plant and equipment	38,742
Interest in an associate	7,882
Prepaid lease payments	1,642
Inventories	4,926
Trade and other receivables	1,273
Cash and cash equivalents	4,963
Trade and other payables	(38,341)
Tax payable	(618)
Net amount derecognised attributable to the equity owners of the Group before capital injection	20,469
Capital injection by Shandong Shihua	17,946
Net amount derecognised including capital injection by Shandong Shihua	38,415

47. Derecognition/Disposal of Subsidiaries *(continued)*

(a) *(continued)*

The gain recognised in profit or loss on loss of control of Zouping Xinao is calculated as follows:

	RMB'000
Fair value of the residual interests in Zouping Xinao recognised as investment cost of a jointly controlled entity	30,102
Capital injection by Shandong Shihua	17,946
	48,048
Less: Net assets derecognised	(38,415)
Gain on derecognition of a subsidiary on loss of control to jointly controlled entity	9,633

	RMB'000
Cash outflow arising on derecognition:	
Cash and cash equivalents disposed of	(4,963)

The fair value of the residual interests of the Group in the Zouping Xinao was based on the Directors' valuation of the separate identifiable assets and liabilities and the Group's share in these assets after the dilution of interests resulting from the capital injection by Shandong Shihua.

The portion of that gain attributable to recognising the jointly controlled entity at fair value at the date when the control is lost is approximately RMB7,053,000.

(b) On 13 November 2010, a wholly owned subsidiary, Zibo Xinao (Note 23(a)), increased its registered capital of RMB2,784,000 at a total cash consideration of RMB2,784,000 by introduction of Shandong Shihua into Zibo Xinao. Shandong Shihua is also a supplier of Zibo Xinao.

According to the newly signed articles of association of Zibo Xinao, the Group and Shandong Shihua have joint control on the business of Zibo Xinao. In addition, the Group will own the entire undistributed profits of Zibo Xinao as at date of the establishment of joint control. Accordingly, the Group's interests in the assets and liabilities in Zibo Xinao were derecognised upon the joint control was established, of which the Group hold 60% of equity interest.

The net assets of Zibo Xinao derecognised at the date of establishment of joint control were as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	9,047
Inventories	4
Trade and other receivables	3,963
Cash and cash equivalents	6,690
Trade and other payables	(15,687)
Net amount derecognised attributable to the equity owners of the Group before capital injection	4,017
Capital injection by Shandong Shihua	2,784
Net amount derecognised including capital injection by Shandong Shihua	6,801

47. Derecognition/Disposal of Subsidiaries *(continued)*

(b) *(continued)*

The gain recognised in profit or loss on loss of control of Zibo Xinao is calculated as follows:

	RMB'000
Fair value of the residual interests in Zibo Xinao recognised as investment cost of a jointly controlled entity	4,081
Capital injection by Shandong Shihua	2,784
	6,865
Less: Net assets derecognised	(6,801)
Gain on derecognition of a subsidiary on loss of control to jointly controlled entity	64

	RMB'000
Cash outflow arising on derecognition:	
Cash and cash equivalents disposed of	(6,690)

The portion of that gain attributable to recognising the jointly controlled entity at fair value at the date when the control is lost is approximately RMB1,670,000.

(c) During the year ended 31 December 2010, the Group deregistered the registered capital of its wholly owned subsidiaries, 洛陽市通奧管道燃氣器具有限公司, 福州新奧清潔能源有限公司 and 鎮江新奧車用燃氣發展有限公司. The net assets of the subsidiaries deregistered were as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	392
Goodwill	823
Inventories	110
Trade and other receivables	33
Cash and cash equivalents	142
Trade and other payables	(111)
Loss on disposal	1,389
Net cash outflow arising on disposal:	
Cash and cash equivalents disposed of	(142)

47. Derecognition/Disposal of Subsidiaries *(continued)*

(d) On 21 March 2009, the Group disposed of its subsidiary, 南通新能氣體開發有限公司 (Nantong Xinneng Gas Development Company Limited) to an independent third party to the Group at a consideration of RMB800,000. The net assets of the subsidiary disposed of at the date of disposal were as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	4,797
Inventories	70
Trade and other receivables	2,586
Cash and cash equivalents	25
Trade and other payables	(3,526)
Non-controlling interests	(1,581)
	2,371
Total consideration satisfied by cash	(800)
Loss on disposal	1,571
Net cash inflow arising on disposal:	
Cash consideration	800
Cash and cash equivalents disposed of	(25)
	775

48. Commitments

(a) Capital commitments

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**85,563**	22,851	45,408
Capital commitment in respect of investments in joint ventures	**68,564**	145,721	32,400
Group's share of capital commitments contracted but not provided in respect of its joint ventures	**–**	–	1,076

(b) Other commitments

As at 31 December 2010, the Group has commitment amounting to RMB20,875,540 (31 December 2009: RMB10,788,000 and 1 January 2009: RMB4,660,000) in respect of acquisition of land use rights in the PRC.

49. Lease Commitments

The Group as lessee

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

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Within one year	**16,235**	17,028	19,942
In the second to fifth year inclusive	**40,866**	22,806	30,711
Over five years	**58,134**	31,498	26,571
	115,235	71,332	77,224

Leases are negotiated for an average term of five 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 5.0% (2009: 4.8%) on an ongoing basis. All of the properties held have committed tenants for terms ranging from one to seven years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	31 December 2010 RMB'000	31 December 2009 RMB'000	1 January 2009 RMB'000
Within one year	**4,676**	2,791	1,902
In the second to fifth year inclusive	**6,906**	3,052	3,209
Over five years	**1,435**	1,073	1,232
	13,017	6,916	6,343

50. Pledge of Assets

At the end of the reporting period, the Group pledged certain assets as securities for bank and other loans, bill facilities and contracts granted to the Group, associates and jointly controlled entities as follows:

	31 December 2010 RMB'000	31 December 2009 RMB'000 (Restated)	1 January 2009 RMB'000 (Restated)
Carrying amount of:			
Property, plant and equipment	**48,861**	27,290	87,783
Investment properties	**–**	22,188	29,449
Restricted bank deposits	**70,196**	120,470	79,817

In addition to the above, the Group has also pledged its rights to receive gas connection and gas supply fee income of certain subsidiaries and jointly controlled entities in favour of banks to secure banking facilities amounting to RMB1,560,000,000 (31 December 2009: RMB1,950,000,000 and 1 January 2009: RMB1,950,000,000) granted to the Group and RMB1,389,000,000 (31 December 2009: RMB1,465,000,000 and 1 January 2009: RMB1,505,000,000) of which is utilised up to 31 December 2010.

51. Related Party Transactions

Apart from the related party balances as stated in Notes 26, 30, 31 and 35, the Group had the following transactions with certain related parties:

	2010 RMB'000	2009 RMB'000
Nature of transaction		
Associates:		
– Sales of gas to	**6,587**	2,768
– Sales of materials to	**3,503**	4,135
– Purchase of gas from	**39,259**	16,345
– Purchase of materials from	**3,335**	2,337
– Provision of gas transportation services to	**8,103**	11,697
– Provision of gas transportation service by	**147**	–
Jointly controlled entities:		
– Sales of gas to	**267,178**	163,385
– Sales of materials to	**101,619**	66,136
– Purchase of gas from	**244,070**	198,071
– Provision of gas transportation services to	**180,972**	231,351
– Loan interest received from	**420**	4,933
– Payment made on behalf of the Group	**1,792**	3,461
– Provision of gas connection services to	**35,991**	25,694
– Provision of supporting services by	**7,579**	1,158

51. Related Party Transactions *(continued)*

	2010 RMB'000	2009 RMB'000
Nature of transaction		
Companies controlled by Mr. Wang:		
– Sales of gas to	**4,597**	2,606
– Purchase of land from	**32,900**	–
– Purchase of property from	**50,000**	–
– Purchase of materials from	**2,093**	36
– Purchase of vehicles from	**2,887**	120
– Purchase of materials – DME from	**10,431**	12,263
– Provision of gas connection service to	**449**	5,519
– Provision of construction service by	**29,407**	–
– Provision of property management services by	**4,823**	4,320
– Provision of property management services to	**436**	436
– Lease of premises to	**1,039**	1,039
– Lease of premises from	**2,596**	2,596
– Provision of supporting services by	**28,722**	22,071
– Provision of maritime transportation services by	**16,800**	18,874
Non-controlling shareholders of subsidiaries with significant influence:		
– Provision of gas connection service to	**2,476**	–
– Purchase of land from	**13,159**	–
– Provision of construction service by	**1,948**	1,860
– Loan advance to	**379**	979
– Lease of premises from	**1,494**	1,496
– Lease of land from	**766**	1,572
– Provision of transportation services by	**1,290**	920
– Interest receive from	**–**	550
– Purchase of gas from	**2,727**	1,505

In addition, Mr. Wang and Ms. Zhao Baoju, spouse of Mr. Wang has provided personal guarantees to the extent of RMB670,000,000 (2009: RMB300,000,000) and a related company has provided corporate guarantee to the extent of RMBnil (2009: RMB100,000,000) to certain banks for banking facilities granted to the Group as at 31 December 2010.

A 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 (2009: RMB100,000,000) granted to the Group and RMB100,000,000 (2009: RMB20,000,000) of which is utilised up to 31 December 2010.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was disclosed in Note 13.

52. Segment Information

Information reported to the chief operating decision maker, the Company's Chief Executive Officer (the "CEO") for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services. Specifically, the Group's reportable segment under HKFRS 8 are gas connection segment, sales of piped gas segment, distributions of bottled LPG segment, sales of gas appliances segment and vehicle refuelling stations segment. Segment profit reviewed by CEO represents the gross profit earned by each segment.

Segment information reported for the prior period has been restated to reflect the effect on change in accounting policy as set out in Note 3 and adoption of new and revised standards set out in Note 4.

52. Segment Information *(continued)*

The following is an analysis of the Group's revenue and results by reportable segment which is also the operating segments for the periods under review:

Year ended 31 December 2010

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled LPG RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	Consolidation RMB'000
Revenue from external customers	**3,048,777**	**6,632,734**	**240,290**	**83,903**	**1,209,385**	**11,215,089**
Segment profit before depreciation and amortisation	**1,700,727**	**1,387,654**	**11,990**	**22,367**	**232,806**	**3,355,544**
Depreciation and amortisation	**(81,078)**	**(234,660)**	**(4,081)**	**(2,037)**	**(22,032)**	**(343,888)**
Segment profit	**1,619,649**	**1,152,994**	**7,909**	**20,330**	**210,774**	**3,011,656**
Other income						**189,049**
Other gains and losses						**20,638**
Distribution and selling expenses						**(212,511)**
Administrative expenses						**(1,169,146)**
Share of results of associates						**5,459**
Share of results of jointly controlled entities						**276,671**
Finance costs						**(310,851)**
Profit before tax						**1,810,965**

Year ended 31 December 2009 – Restated

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled LPG RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	Consolidation RMB'000
Revenue from external customers	2,553,755	4,077,527	897,121	86,814	797,663	8,412,880
Segment profit before depreciation and amortisation	1,527,183	1,089,176	8,230	19,018	198,554	2,842,161
Depreciation and amortisation	(67,932)	(212,724)	(4,223)	(2,035)	(15,097)	(302,011)
Segment profit	1,459,251	876,452	4,007	16,983	183,457	2,540,150
Other income						104,586
Other gains and losses						(132,642)
Distribution and selling expenses						(159,025)
Administrative expenses						(857,047)
Share of results of associates						5,066
Share of results of jointly controlled entities						210,719
Finance costs						(328,449)
Profit before tax						1,383,358

52. Segment Information *(continued)*

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

31 December 2010

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled LPG RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	Consolidation RMB'000
Assets:						
Segment assets	**2,364,437**	**9,042,905**	**101,922**	**144,473**	**485,072**	**12,138,809**
Interests in associates						**487,683**
Interests in jointly controlled entities						**1,361,265**
Unallocated corporate assets						**5,651,792**
Consolidated total assets						**19,639,549**
Liabilities:						
Segment liabilities	**3,424,800**	**980,376**	**12,514**	**78,460**	**92,816**	**4,588,966**
Unallocated corporate liabilities						**7,510,732**
Consolidated total liabilities						**12,099,698**

31 December 2009 – Restated

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled LPG RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	Consolidation RMB'000
Assets:						
Segment assets	2,261,104	7,395,685	102,400	131,982	422,239	10,313,410
Interests in associates						323,880
Interests in jointly controlled entities						1,015,641
Unallocated corporate assets						4,982,025
Consolidated total assets						16,634,956
Liabilities:						
Segment liabilities	2,814,014	700,366	16,641	54,663	48,849	3,634,533
Unallocated corporate liabilities						6,573,881
Consolidated total liabilities						10,208,414

52. Segment Information *(continued)*

1 January 2009 – Restated

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled LPG RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	Consolidation RMB'000
Assets:						
Segment assets	1,929,547	7,040,055	334,702	132,787	355,196	9,792,287
Interests in associates						292,438
Interests in jointly controlled entities						757,620
Unallocated corporate assets						3,699,301
Consolidated total assets						14,541,646
Liabilities:						
Segment liabilities	1,945,541	635,747	30,525	69,399	24,835	2,706,047
Unallocated corporate liabilities						6,419,173
Consolidated total liabilities						9,125,220

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than unallocated corporate assets, mainly include unallocated property, plant and equipment, prepaid lease payments, investment properties, other receivable, interests in associates, interests in jointly controlled entities, deferred tax assets and available-for-sale financial assets; and
- all liabilities are allocated to reportable segments other than unallocated corporate liabilities, mainly include other payable, taxation payable, short-term debentures, financial guarantee liability, guaranteed notes and deferred taxation.

For the purposes of presenting segment revenue, results, assets and liabilities, the Group allocates certain property, plant and equipment and prepaid lease payments to certain segments without allocating the related depreciation and release of prepaid lease payments to those segments.

Other segment information

	Gas connection RMB'000	**Sales of piped gas** RMB'000	**Distributions of bottled LPG** RMB'000	**Sales of gas appliances** RMB'000	**Vehicle gas refuelling stations** RMB'000	**Segment total** RMB'000	**Adjustments (note a)** RMB'000	**Total** RMB'000
Amounts included in the measure of segment profit or loss or segment assets:								
2010								
Additions to non-current assets (note b)	**217,691**	**2,045,737**	**18,516**	**540**	**189,677**	**2,472,161**	**353,429**	**2,825,590**
Depreciation and amortisation	**64,276**	**251,462**	**4,081**	**2,037**	**22,032**	**343,888**	**96,432**	**440,320**
2009								
Additions to non-current assets (note b)	129,929	1,250,992	3,791	6,134	164,036	1,554,882	169,803	1,724,685
Depreciation and amortisation	67,933	212,723	4,223	2,035	15,097	302,011	76,291	378,302

52. Segment Information *(continued)*

Notes:

(a) Adjustments represent amounts incurred for corporate headquarters and are not allocated to operating segments.

(b) Non-current assets include property, plant and equipment, prepaid lease payments, goodwill and intangible assets.

The Group's operations are located in the PRC and substantially all of the Group's non-current assets excluding financial instruments and deferred tax assets are located in the PRC. The Group's revenue from external customers are generated from the PRC.

There is no single customer contribute more than 10% of the total revenue of the Group.

53. Retirement Benefits Scheme

	2010 RMB'000	2009 RMB'000
Retirement benefit contribution made during the year	**39,426**	38,540

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.

54. Events after the Reporting Period

On 16 February 2011, pursuant to the approval [2011] No.129 issued by National Development and Reform Commission ("NDRC"), NDRC approved a wholly-owned subsidiary of the Company, Xinao (China) to issue a corporate bond of RMB500,000,000. The corporate bond is unsecured with a coupon rate of 6.45% per annum and is repayable on 16 February 2018.

55. 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 2010	2009	Principal activities
ENN Gas Investment Group Limited ("ENN")	British Virgin Island	US$1,000	**100.00%**	100.00%	Investment holding
安溪新奧燃氣有限公司 Anxi Xinao Gas Company Limited	PRC	RMB10,000,000	**100.00%**	–	Gas pipeline infrastructure, gas connection and sales of piped gas
北海新奧燃氣有限公司 Beihai Xinao Gas Company Limited*	PRC	RMB120,000,000	**82.00%**	82.00%	Production and sales of LNG and CNG; design and installation of piped gas facilities; production, sales and repair of gas equipment and applicancess

55. 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 2010	2009	Principal activities
北京新奧燃氣有限公司 Beijing Xinao Gas Company Limited*	PRC	US$1,195,600	**95.00%**	95.00%	Sales of piped gas and bottled LPG
北京新奧華鼎貿易有限公司 Beijing Xinao Huading Trading Company Limited#	PRC	US$23,800,000	**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 LPG
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%**	100.00%	Sales of gas and gas appliance; storage, transportation and sales of DME
濱州新奧燃氣工程有限公司 Binzhou Xinao Gas Engineering Company Limited#	PRC	US$600,000	**–**	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
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

55. 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 2010	2009	Principal activities
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 sales of gas for vehicle use
長沙新奧燃氣有限公司 Changsha Xinao Gas Company Limited* ("Changsha Xinao")	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 ("Xingsha Xinao")	PRC	RMB22,000,000	**46.75%**	46.75%	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* ("Xingsha Xinao Development")	PRC	RMB8,000,000	**46.75%** (note a)	46.75% (note a)	Exploitation and sales of piped gas
長沙新奧熱力有限公司 Changsha Xinao Heat Energy Company Limited*	PRC	RMB35,000,000	**90.00%** (note a)	90.00% (note a)	Sales of steam
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
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
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
大連新奧燃氣發展有限公司 Dalian Xinao Gas Development Company Limited	PRC	RMB6,000,000	**100.00%**	–	Distribution of bottled LPG
封開新奧燃氣有限公司 Fengkai Xinao Gas Company Limited#	PRC	RMB12,000,000	**100.00%**	–	Sales of piped gas

55. 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 2010	2009	Principal activities
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%	Sales of CNG, LPG and LNG
廣州新奧燃氣有限公司 Guangzhou Xinao Gas Company Limited#	PRC	RMB100,000,000	**100.00%**	–	Sales of piped gas
廣州市都成運輸有限公司 Guangzhou Ducheng Transportation Company Limited#	PRC	RMB500,000	**100.00%**	–	Sales of piped gas
廣寧新奧燃氣有限公司 Guangning Xinao Gas Company Limited#	PRC	RMB10,000,000	**100.00%**	–	Sales of piped gas
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
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

55. 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 2010	2009	Principal activities
廣州富城管道燃氣有限公司 Guangzhou Fucheng Piped Gas Company Limited*	PRC	RMB2,000,000	**90.00%**	90.00%	Sales of piped gas
邯鄲新奧邯運車用燃氣有限公司 HanDan Xinao Hanyun Vehicle Gas Company Limited*	PRC	RMB30,000,000	**51.00%**	51.00%	Construction and operation of vehicle gas refuelling stations
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
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%**	100.00%	Sales of piped gas and gas appliances
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%**	80.00%	Construction and operation of vehicle gas refuelling stations
懷集新奧燃氣有限公司 Huaiji Xinao Gas Company Limited#	PRC	RMB10,000,000	**100.00%**	–	Sales of piped gas
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
葫蘆島新奧清潔能源有限公司 Huludao Xinao Clean Energy Company Limited*	PRC	US$6,800,000	**90.00%**	–	Investment in gas pipeline infrastructure and sales of piped gas

55. 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 2010	2009	Principal activities
湖南新奧燃氣儲配有限公司 Hunan Xinao Gas Storage Company Limited	PRC	RMB53,000,000	**74.50%**	74.50%	Design and installation of gas equipment
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 sales of IC card metre and software system
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 LPG
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 appliances
淮安新奧淮陰車用燃氣有限公司 Huaian Xinao Huaiyin Vehicle Gas Company Limited#	PRC	US$1,000,000	**100.00%**	100.00%	Technology research and development and promotion of compressed natural gas ("CNG")
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%**	100.00%	Sales of CNG for vehicle use and related equipment; construction and operation of vehicle gas refuelling stations
淮安新奧清浦車用燃氣有限公司 Huaian Xinao Qingpu Vehicle Gas Company Limited#	PRC	US$1,000,000	**100.00%**	100.00%	Technology research and development and promotion of compressed natural gas ("CNG")

55. 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 2010	2009	Principal activities
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
惠安新奥燃氣有限公司 Huian Xinao Gas Company Limited	PRC	RMB10,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
懷化新奥燃氣有限公司 Huaihua Xinao Gas Company Limited*	PRC	RMB20,000,000	**85.00%**	–	Investment in gas pipeline infrastructure, sales of gas equipment and appliances
惠州新鑫新能源有限公司 Huizhou Xinxin Energy Company Limited#	PRC	RMB32,120,350	**94.00%**	–	Construction of storage room for LPG
江蘇大通管輸天然氣有限公司 Jiangsu Datong Natural Gas Transmission Company Limited	PRC	US$10,800,000	**72.80%**	–	Investment in gas pipeline infrastructure, installation, construction and maintenance of piped gas facilities
晉江新奥燃氣有限公司 Jinjiang Xinao Gas Company Limited	PRC	RMB60,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
晉江新奥燃氣管道輸配有限公司 Jinjiang Xinao Gas Pipeline Transmission Company Limited*	PRC	RMB30,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
金華新奥燃氣有限公司 Jinhua Xinao Gas Company Limited#	PRC	US$5,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
金華新奥燃氣發展有限公司 Jinhua Xinao Gas Development Company Limited#	PRC	US$600,000	**100.00%**	100.00%	Sales of piped gas
開封新奥燃氣有限公司 Kaifeng Xinao Gas Company Limited*	PRC	US$10,000,000	**94.00%**	90.00%	Sales of piped gas

55. 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 2010	2009	Principal activities
開封新奧燃氣工程有限公司 Kaifeng Xinao Gas Engineering Company Limited*	PRC	US$800,000	**94.00%**	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
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 Engineering 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
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
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
廊坊新奧軟體科技有限公司 Langfang Xinao Software Technology Company Limited#	PRC	US$120,000	**100.00%**	100.00%	Provision of services for strorage of business data, business internal data management and maintenance
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

55. 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 2010	2009	Principal activities
連雲港新奧燃氣工程有限公司 Lianyungang Xinao Gas Engineering Company Limited*	PRC	RMB10,000,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure
連州新奧燃氣有限公司 Lianzhou Xinao Gas Company Limited#	PRC	RMB10,000,000	**100.00%**	–	Sales of piped gas
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
淩海盛泰燃氣有限公司 Linghai Shengtai Gas Company Limited#	PRC	RMB5,000,000	**80.00%**	–	Sales of piped gas
龍游新奧燃氣有限公司* Longyou Xinao Gas Company Limited	PRC	US$3,000,000	**90.00%**	90.00%	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
六安新奧燃氣工程有限公司 Luan Xinao Gas Engineering Company Limited#	PRC	US$800,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
羅定市新奧燃氣有限公司 Luoding City Xinao Gas Company Limited#	PRC	RMB12,000,000	**100.00%**	–	Sales of piped gas
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 sales of compressed natural gas
灤縣新奧燃氣有限公司 Luanxian Xinao Gas Company Limited	PRC	RMB5,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
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

55. 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 2010	2009	Principal activities
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%	Production and sales of gas appliances
洛陽市中天燃氣工程設計有限公司 Luoyang City Zhongtian Gas Engineering Design Company Limited	PRC	RMB1,000,000	**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 appliances of piped gas
南安新奧燃氣有限公司 Nanan Xinao Gas Company Limited* ("Nanan Xinao")	PRC	RMB10,000,000	**42.00% (note c)**	42.00% (note c)	Investment in gas pipeline infrastructure
南安市燃氣有限公司 Nanan City Gas Company Limited ("Nanan City Gas")	PRC	RMB30,000,000	**42.00% (note b)**	42.00% (note b)	Investment in gas pipeline infrastructure and sales of piped gas
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%**	100.00%	Provision of energy solutions
南昌新奧燃氣有限公司 Nanchang Xinao Gas Company Limited#	PRC	US$3,500,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
南寧新奧清潔能源有限公司 NanNing Xinao Clean Energy Company Limited*	PRC	RMB10,000,000	**85.00%**	85.00%	Construction and operation of vehicle gas refuelling stations; production and sales of clean energy
南通新奧燃氣工程有限公司 Nantong Xinao Gas Engineering 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

55. 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 2010	2009	Principal activities
盤錦遼濱盛泰燃氣有限公司 Panjin Liaobing Shengtai Gas Company Limited#	PRC	RMB20,000,000	**80.00%**	–	Sales of piped gas
盤山盛泰燃氣有限公司 Panjin Shengtai Gas Company Limited#	PRC	RMB5,000,000	**76.00%**	–	Sales of piped gas
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
青島新奧燃氣設施開發有限公司 Qingdao Xinao Gas Equipment Development Company Limited*	PRC	US$600,000	**93.00%**	93.00%	Investment in gas pipeline infrastructure
青島新奧紅島燃氣有限公司# Qingdao Xinao Hongdao Gas Company Limited	PRC	RMB5,000,000	**100.00%**	–	Production, maintenance and technology consulting services for gas equipment and facilities

55. 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 2010	2009	Principal activities
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
泉州市燃氣有限公司 Quanzhou City Gas Company Limited* ("Quanzhou City Gas")	PRC	RMB450,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
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%**	60.00%	Investment in gas pipeline infrastructure
泉州市燃氣輸配有限公司 Quanzhou Gas Transmission Company Limited*	PRC	RMB30,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
全椒新奧燃氣有限公司 Quanjiao Xinao Gas Company Limited#	PRC	US$1,590,000	**100.00%**	100.00%	Sales of piped gas and gas appliances
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
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%	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%**	100.00%	Exploitation and sales of piped gas and gas appliance
山東七星液化石油氣有限責任公司 Shandong Qixing Liquefied Petroleum Company Limited*	PRC	RMB40,000,000	**80.00%**	–	Sales of LPG

55. 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 2010	2009	Principal activities
山西沁水新奧燃氣有限公司 Shanxi Qinshui Xinao Gas Company Limited#	PRC	RMB50,000,000	**100.00%**	100.00%	Production and sales of LNG
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	**56.15%**	51.00%	Sales of piped gas
汕頭市新奧濠江燃氣有限公司 Shantou City Xinao Haojiang Gas Company Limited	PRC	RMB20,000,000	**100.00%**	–	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奧燃氣有限公司 Shijiazhuang Xinao Gas Company Limited*	PRC	RMB300,000,000	**65.00%**	65.00%	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%**	65.00%	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%**	60.00%	Investment in gas pipeline infrastructure
四會新奧燃氣有限公司 Sihui Xinao Gas Company Limited#	PRC	RMB28,000,000	**100.00%**	100.00%	Sales of piped gas
台州新奧燃氣有限公司 Taizhou Xinao Gas Company Limited*	PRC	US$2,500,000	**80.00%**	80.00%	Investment in gas pipeline infrastructure and sales of piped gas
台州新奧燃氣工程有限公司 Taizhou Xinao Gas Engineering Company Limited*	PRC	US$2,500,000	**80.00%**	80.00%	Transmission of gas; design and installation of gas equipment

55. 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 2010	2009	Principal activities
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
唐海新奧車用燃氣有限公司 Tanghai Xinao Vehicle Gas Company Limited#	PRC	RMB10,000,000	**100.00%**	–	Construction and operation of vehicle gas refuelling stations
天津新奧燃氣有限公司 Tianjin Xinao Gas Company Limited#	PRC	RMB4,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
通遼新奧燃氣有限公司 Tongliao Xinao Gas Company Limited*	PRC	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
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
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
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 LPG
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

55. 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 2010	2009	Principal activities
興化新奥燃氣有限公司 Xinghua Xinao Gas Company Limited#	PRC	US$1,200,000	**100.00%**	100.00%	Sales of piped gas
興化新奥燃氣工程有限公司 Xinghua Xinao Gas Engineering Company Limited*	PRC	US$600,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奥能源物流有限公司 Xinao Energy Logistics Company Limited#	PRC	US$12,400,000	**100.00%**	100.00%	Transportation of oil products and gas
新奥(廊坊)能源商務服務有限公司 Xinao (Langfang) Energy Business Services Company Limited#	PRC	RMB10,000,000	**100.00%**	100.00%	Provision of business advisory services
新奥能源銷售有限公司 Xinao Energy Sales Company Limited#	PRC	US$28,200,000	**100.00%**	100.00%	Wholesale and retail of LNG and CNG, piped gas facilities, gas equipment, appliances and others
新奥能源咨詢有限公司 Xinao Energy Consultant Company Limited#	PRC	RMB50,000,000	**100.00%**	100.00%	Provision of consultation services on overall comprehensive energy solutions
新奥燃氣發展有限公司 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
新奥燃氣工程有限公司 Xinao Gas Engineering Company Limited#	PRC	US$7,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奥(中國)燃氣投資有限公司 Xinao (China)#	PRC	US$231,778,124	**100.00%**	100.00%	Investment holding
新奥(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

55. 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 2010	2009	Principal activities
新奧（鹽城）環保產業園燃氣有限公司 Xinao (Yancheng) Environment Protection of Gas Industry Company Limited#	PRC	RMB17,584,500	**100.00%**	–	Processing of natural 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 appliances
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 appliances
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 appliances
新鄉新奧車用燃氣有限公司 Xinxiang Xinao Vehicle Gas Company Limited*	PRC	RMB3,000,000	**61.75%**	61.75%	Sales of gas for vehicle use and provision of related consultation services
新鄉新奧熱力有限公司 Xinxiang Xinao Heat Energy Company Limited#	PRC	RMB38,100,000	**100.00%**	100.00%	Sales of heat energy
信宜新奧燃氣有限公司 Xinyi Xinao Gas Company Limited#	PRC	RMB10,000,000	**100.00%**	–	Sales of piped gas
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
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
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%**	80.00%	Refitting and maintenance of natural gas vehicle supply system
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

55. 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 2010	2009	Principal activities
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
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 sales of gas equipment and others
煙台牟平新奧天然氣加氣有限公司 Yantai Muping Xinao Gas Refuelling Limited*	PRC	RMB7,000,000	**78.00%**	78.00%	Construction and operation of vehicle gas refuelling stations
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
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
伊川新奧燃氣有限公司 Yichuan Xinao Gas Company Limited	PRC	RMB10,000,000	**100.00%**	100.00%	Sales of piped gas

55. 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 2010	2009	Principal activities
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%**	100.00%	Production and sales of CNG for vehicle use; sales of LNG
永春縣新奧燃氣有限公司 Yongchun Xinao Gas Company Limited	PRC	RMB15,000,000	**100.00%**	100.00%	Design and installation of gas equipment
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%**	100.00%	Investment in gas pipeline infrastructure
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%	Sale of gas for vehicle use
鄭州新奧清潔能源有限公司# Zhengzou Xinao Clean Energy Company Limited	PRC	RMB50,000,000	**100.00%**	–	Construction and operation of vehicle gas refuelling stations
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 LPG
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

55. 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 2010	2009	Principal activities
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 and sales of piped gas
株州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%**	55.00%	Investment in gas pipeline infrastructure
淄博新奧燃氣有限公司 (Zibo Xinao)	PRC	RMB5,370,000	–	100.00%	Operation of vehicle gas refuelling stations
鄒平新奧燃氣有限公司 (Zouping Xinao)	PRC	RMB1,200,000	–	100.00%	Sales of piped gas

Notes:

a. The Group hold 46.75% indirect effective interest in Xingsha Xinao and Xingsha Xinao Development through the 85% direct interest held by a 55% owned subsidiary, Changsha Xinao. Therefore, the Group has control over these entities and they are considered as subsidiaries of the Company.

b. The Group hold 42% indirect effective interest in Nanan City Gas through the 70% direct interest held by a 60% owned subsidiary, Quanzhou City Gas. Therefore the Group has control over this entity and it is considered as a subsidiary of the Company.

c. The Group hold 42% indirect effective interest in Nanan Xinao through the 100% direct interest held by a 42% owned subsidiary, Nanan City Gas. Therefore the Group has control over this entity and it is considered as a subsidiary of the Company.

All of the above subsidiaries, except for ENN and Xinao (China), are indirectly held by the Company.

All of the above subsidiaries operate principally in their respective place of incorporation/establishment, except for ENN, 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 as at 31 December 2010 or at any time during the year except for Xinao (China) which has issued short-term debentures to third party debenture holders with face value of RMB800,000,000, in which the Group has no interest.

* Sino-foreign equity joint venture

\# Wholly foreign owned enterprise

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