ENN 新奥

新奥燃气控股有限公司
XinAo Gas Holdings Limited

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 2688)

(Website: www.xinaogas.com)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

The Board of Directors (the "Directors") of Xinao Gas Holdings Limited (the "Company" and together with its subsidiaries, the "Group") is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2008 together with the comparative audited figures for the corresponding period in 2007. The audited consolidated financial statements have been reviewed by the Company's Audit Committee.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

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

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2008

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

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

Notes:

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, Directors have given careful consideration of the Group in light of its net current liabilities of RMB1,074,307,000 as at 31 December 2008. Having considered the secured credit facilities of approximately RMB1,271,640,000 which remains unutilised at the date of approval of the consolidated financial statements, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

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

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

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

3. SEGMENT INFORMATION

(a) Business segments

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

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

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

2008

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

2007

	Gas connection	Sales of piped gas	Distributions of bottled liquefied Petroleum gas	Sales of gas appliances	Vehicle gas refuelling stations	Unallocated segment	Consolidation
	(Restated)	*(Restated)*					
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,925,079	2,365,622	1,092,226	97,548	275,795	-	5,756,270
Segment result before depreciation, impairment and loss on disposal of property, plant and equipment	1,188,214	620,214	15,126	25,365	65,999	-	1,914,918
Depreciation	(14,594)	(195,855)	(7,038)	(3,443)	(1,453)	-	(222,383)
Loss on disposal of property, plant and equipment	(3,126)	(23,669)	-	-	-	(6,722)	(33,517)
Impairment loss on property, plant and equipment	-	(11,535)	-	-	-	-	(11,535)
Impairment loss on goodwill	(50,606)	-	-	-	-	-	(50,606)
Segment result	1,119,888	389,155	8,088	21,922	64,546	(6,722)	1,596,877
Unallocated other income							222,037
Unallocated corporate expenses							(829,738)
							989,176
Share of results of associates	1,456	446	-	-	-	(8,403)	(6,501)
Share of results of jointly controlled entities	92,932	20,083	-	-	-	-	113,015
Finance costs							(281,173)
Profit before taxation							814,517
Taxation							(108,373)
Profit for the year							706,144

(b) Geographical segment

More than 90 percent of the Group's assets are located in the People’s Republic of China (the “PRC”) as at the balance sheet date.

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

4. TAXATION

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

The charge represents PRC Enterprise Income Tax for both years.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and the Implementation Regulation, the statutory Enterprise Income Tax rate is changed from 33% to 25%.

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

Entities that originally entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operation and thereafter and a 50% relief from PRC Enterprise Income Tax for the following three years ("2+3" tax preference) can continue enjoying the tax preference based on the Enterprise Income Tax rate of 25% or other preferential rate applicable for the entities until after the expiration of the tax preference. Entities that did not start "2+3" tax preference before 2008 because they were still in loss position shall start the "2+3" tax preference from 2008.

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

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

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are entitled to the "2+3" tax preference. Under the New Law, the PRC Enterprise Income Tax rates applicable to these subsidiaries range from 18% to 25% (2007:15% to 33%) and the reduced tax rates for the relief period range from 9% to 12.5% (2007: 7.5% to 16.5%). The charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentives into account. The tax benefit will expire during the period from year 2009 to 2012.

The deferred tax balance as at 31 December 2007 had been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

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

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

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

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

5. DIVIDENDS

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

The final dividend in respect of 2008 of HKD17.71 cents (2007: HKD13.42 cents) (equivalent to approximately RMB15.62 cents (2007: RMB12.57 cents) per share on 1,009,759,397 shares (2007: 1,009,759,397 shares) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting. The payment of the final dividend will be made on 15 June 2009, to shareholders whose name appear on the register of members of the Company on 26 May 2009.

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6. EARNINGS PER SHARE

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

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

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

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	For the year ended 31 December 2008	2007	Increase
Turnover *(RMB)*	8,265,508,000	5,756,270,000	**43.6%**
Gross profit *(RMB)*	2,246,541,000	1,749,999,000	**28.4%**
Profit attributable to equity holders of the Company *(RMB)*	630,705,000	507,520,000	**24.3%**
Earnings per share – Basic *(RMB)*	62.5 cents	51.3 cents	**21.8%**
Connectable urban population	41,644,000	40,294,000	**3.4%**
Connectable residential households	13,881,000	13,431,000	**3.4%**
New natural gas connections made during the year:			
– residential households	710,035	580,876	**22.2%**
– commercial/industrial ("C/I") customers	2,548	2,115	**20.5%**
– installed designed daily capacity for C/I customers *(m^3)*	2,324,171	2,212,639	**5.0%**
Accumulated number of natural gas customers:			
– residential households (Note1 & 2)	3,600,387	2,749,352	**31.0%**
– C/I customers (Note1 & 2)	10,857	8,206	**32.3%**
– installed designed daily capacity for C/I customers *(m^3)* (Note1 & 2)	9,009,892	6,930,934	**30.0%**
Accumulated number of piped gas (including natural gas) customers:			
– residential households	3,745,145	3,167,800	**18.2%**
– C/I customers	11,288	8,869	**27.3%**
– installed designed daily capacity for C/I customers *(m^3)*	9,518,438	7,594,338	**25.3%**
Natural gas penetration rate	25.9%	20.5%	–
Piped gas (including natural gas) penetration rate	27.0%	23.6%	–
Unit of piped gas sold to residential households *(m^3)*	420,880,000	359,991,000	**16.9%**
Unit of piped gas sold to C/I customers *(m^3)*	1,816,946,000	1,596,608,000	**13.8%**
Unit of gas sold to vehicles *(m^3)*	334,031,000	180,889,000	**84.7%**
Unit of bottled liquefied petroleum gas ("LPG") sold *(ton)*	599,567	225,156	**1.7 times**
Number of vehicle refuelling stations	128	89	**39 stations**
Number of natural gas processing stations	90	83	**7 stations**
Total length of existing intermediate and main pipelines (*km)*	12,584	11,301	**11.4%**

Notes:
1. At 31 December 2008, including a total of 912,296 natural gas residential customers and 2,060 natural gas C/I customers (with a total designed daily capacity of 1,013,857m^3) from acquisition/conversion.
2. At 31 December 2007, including a total of 748,089 natural gas residential customers and 1,870 natural gas C/I customers (with a total designed daily capacity of 1,192,996m^3) from acquisition/conversion.

CHAIRMAN'S STATEMENT

RESULTS OF THE YEAR

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

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

During the year, the Group completed piped natural gas connections to 710,035 residential households and 2,548 commercial/industrial ("C/I") customers (connected to gas appliances with total installed designed daily capacity of 2,324,171 cubic meters). As of the end of 2008, the accumulated number of residential households and C/I customers of natural gas were 3,600,387 and 10,857 (connected to gas appliances with a total installed designed daily capacity of 9,009,892 cubic meters) respectively, and the accumulated number of residential households and C/I customers of all piped gas were 3,745,145 and 11,288 (connected to gas appliances with a total installed designed daily capacity of 9,518,438 cubic meters) respectively. The sales volume of natural gas for the year grew by 25.2% as compared to last year to 2,200,291,570 cubic meters. Such increase fully demonstrated the benefits of the economies of scale, the robust development of the Group's business as well as our achievement in vigorously raising the penetration rate of our existing gas projects.

CORPORATE MANAGEMENT

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

INTERNATIONAL AWARDS

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

HUMAN RESOURCES

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

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

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

PROSPECTS

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

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

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

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

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

In 2009, in view of the impact from the financial tsunami and the slowdown of global economy, the Group will continue to expand its gas distribution network systematically and acquire new projects, as well as enhance the standard of its customer services, while still maintaining a healthy cash flow. Through the execution and implementation of informatisation and strategic performance programs, the Group's cost control will be further strengthened and the operational efficiency will also be enhanced. The effect of the Group's economies of scale will be more obvious and will reflect in our business. In addition, the innovation of new business models such as energy services will also be accelerated. As at the end of 2008, the Group has entered into memorandum of understanding with 11 cities or parks whereby the Group will provide customised plans for clean energy usage and solutions for energy saving and emission reduction, thus supplying highly effective energy services. As the Group helps the country to achieve sustainable growth resulting from boosting the supply of clean energy continuously, the total value of the whole clean energy chain will be enhanced at the same time. Devoted to become the leading operator in the energy services sector, we will continue to make contribution to China's environmental protection and energy sector and spare no effort to maximise the long-term benefits of our shareholders, customers, staff, society and enterprises.

FINANCIAL RESOURCES REVIEW

Liquidity and financial resources

As at 31 December 2008, the Group's cash on hand was equivalent to RMB1,725,358,000 (31 December 2007: RMB1,693,459,000), and its total debts was equivalent to RMB5,403,140,000 (31 December 2007: RMB5,054,324,000). The net gearing ratio, i.e. the ratio of net debt to total equity (including minority interests), was 67.6% (31 December 2007: 72.1%).

Under the US$25,000,000 Loan Agreements with International Financial Corporation ("IFC") and the subsequent amendment, the Company, Mr. Wang Yusuo ("Mr. Wang") and the Borrowers (i.e. Bengbu Xinao Gas Company Limited, Shijiazhuang Xinao Gas Company Limited and Xiangtan Xinao Gas Company Limited, all being subsidiaries of the Company) have entered into the Share Retention Agreements with IFC on 18 May 2004 whereby Mr. Wang has agreed, according to the Loan Agreement and the subsequent amendment thereto, that so long as any monies remain due or to become due and owing by the Borrowers to IFC under or in respect of the Loan Agreements, he and Ms. Zhao Baoju ("Ms. Zhao") will own, in aggregate, directly or, at any time that he and Ms. Zhao own in aggregate all the shares of Xinao Group International Investment Limited ("XGII"), indirectly through XGII, at least 27% of the issued share capital of the Company. Mr. Wang and Ms. Zhao are the beneficial and legal owners of XGII, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. As at 31 December 2008, XGII and Mr. Wang together held 33.38% interests of the Company.

Five-year zero coupon convertible bonds

The Company issued five-year convertible bonds ("CB" or "CBs") in an aggregate principal amount of HK$550,000,000 on 15 November 2004. The CBs are zero coupon bonds; the issue price is 100% whereas the redemption price is 106.43%, which means that the effective interest rate is 1.25% per annum. All bondholders have exercised the conversion right in May 2007 and convert the CBs into ordinary shares of HK$0.10 each of the Company. The conversion price for each ordinary share at the issue date of the CBs was HK$5.4375. There were no outstanding CBs which had not been converted.

Seven-year 7.375% fixed rate bonds

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

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

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

Borrowings structure

As at 31 December 2008, the Group's total debts amounted to RMB5,403,140,000 (31 December 2007: RMB5,054,324,000), including loans and bonds of US$205,000,000 (equivalent to RMB1,381,101,000) and loans of HK$142,633,000 (equivalent to RMB125,786,000). Apart from the US$200,000,000 bonds and RMB600,000,000 short-term debenture which bear interest at fixed coupons, other US dollar loans and HK dollar loans bear interest at floating rates, and the remaining bank and other borrowings are denominated in Renminbi and bear interest at the interest rates announced by the People's Bank of China. The project companies used the Renminbi loans as their capital expenditure, working capital and operational expenditure. Except for the bank and other loans amount equivalent to RMB1,888,631,000 that are secured by assets with an carrying amount equivalent to RMB197,049,000, all of the other loans are unsecured. Short-term loans amounted equivalent to RMB1,239,450,000 while the remaining were long-term loans falling due after one year or above.

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

Capital Commitments

	At 31 December 2008 *RMB'000*	**At 31 December 2007** *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for	45,408	121,024
Capital commitment in respect of investment in joint ventures	32,400	-
Group's share of capital commitments contracted but not provide in respect of its joint ventures	1,076	-

Financial Guarantee Liability

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

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

PURCHASE SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control (including financial control, operational control, compliance control and risk management function) and financial reporting matters. Members of the Audit Committee are Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau, who are all independent non-executive Directors. The Audit Committee has reviewed the unaudited interim accounts and the audited annual accounts for 2008. Three Audit Committee meetings were held during the financial year.

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 for Securities Transactions by Directors of Listed Issuers ("Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("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 during the 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 Provisions A.1.3 and E.1.2. In order to best accommodate the available time slots of all Directors, the third and forth regular board meeting of the Company during the year were held less than 14 days after respective notice was given. All directors were able to attend the third and forth regular board meeting. On the other hand, the chairman of the Board was unable to attend the annual general meeting of the Company held on 27 May 2008 due to business trip, and neither the Chairman nor member of the Audit Committee was able to attend the said meeting due to unexpected business commitments. Alternatively, Mr. Yang Yu, the chief executive officer of the Company at that time, and Mr. Cheng Chak Ngok, the executive Director and qualified accountant of the Company attended the said annual general meeting.

DIVIDEND AND CLOSING OF REGISTER OF MEMBERS

The Directors now recommend a final dividend of HK$17.71 cents (2007: HK$ 13.42 cents) (equivalent to approximately RMB15.62 cents (2007: RMB12.57 cents)) per share payable to shareholders of the Company whose names are on the register of members on Tuesday, 26 May 2009. The final dividend is subject to approval by the shareholders in the forthcoming annual general meeting and will be paid to shareholders of the Company on or before 15 June 2009.The register of members will be closed from Wednesday, 20 May 2009 to Tuesday, 26 May 2009, both days inclusive, during which period no share transfer will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30p.m. on Tuesday, 19 May 2009.

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 8 April 2009

As at the date of this announcement, the Board comprises of eight executive directors, namely Mr. WANG Yusuo (Chairman), Mr. CHEN Jiacheng (Chief Executive Officer), Mr. ZHAO Jinfeng, Mr. YU Jianchao, Mr. CHEUNG Yip Sang, Mr. CHENG Chak Ngok, Mr. Liang Zhiwei and Ms. Zhai Xiaoqin; two non-executive directors, namely Ms. ZHAO Baoju and Mr. JIN Yongsheng; and three independent non-executive directors, namely Mr. WANG Guangtian, Ms. YIEN Yu Yu, Catherine and Mr. KONG Chung Kau.