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 2009

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 2009 together with the comparative audited figures for the corresponding period in 2008. The audited consolidated financial statements have been reviewed by the Company's Audit Committee.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTES	2009 RMB'000	2008 RMB'000
Revenue	3	8,412,880	8,265,508
Cost of sales		(5,874,980)	(6,018,967)
Gross profit		2,537,900	2,246,541
Other income		104,586	213,882
Selling expenses		(159,025)	(130,723)
Administrative expenses		(857,047)	(1,040,571)
Other gains and losses	4	(132,642)	22,419
Share of results of associates		5,066	7,347
Share of results of jointly controlled entities		210,719	192,828
Finance costs		(328,449)	(381,044)
Profit before taxation		1,381,108	1,130,679
Taxation	5	(304,459)	(259,955)
Profit for the year		1,076,649	870,724
Other comprehensive income:			
Gain on revaluation of properties		37,914	5,492
Income tax relating to other comprehensive income		(8,964)	(692)
Other comprehensive income for the year (net of tax)		28,950	4,800
Total comprehensive income for the year		1,105,599	875,524
Profit for the year attributable to:			
Owners of the Company		800,634	630,705
Minority interests		276,015	240,019
		1,076,649	870,724
Total comprehensive income attributable to:			
Owners of the Company		827,123	634,830
Minority interests		278,476	240,694
		1,105,599	875,524
		2009 *RMB*	2008 *RMB*
Earnings per share	7		
-Basic		77.5 cents	62.5 cents
-Diluted		77.2 cents	61.4 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	NOTES	**2009** *RMB'000*	**2008** *RMB'000*
Non-current assets			
Property, plant and equipment		9,092,059	7,855,387
Prepaid lease payments		528,909	472,228
Investment properties		72,625	63,005
Goodwill		171,862	168,926
Intangible assets		449,773	464,712
Interests in associates		323,880	292,483
Interests in jointly controlled entities		1,015,641	757,620
Available-for-sale financial assets		14,056	13,956
Loan receivable		9,000	12,000
Other receivable		30,581	–
Amounts due from associates		71,795	–
Amounts due from jointly controlled entities		26,644	20,000
Amounts due from related companies		34,582	–
Deferred tax assets		33,678	–
Deposits paid for investments in subsidiaries		62,200	96,228
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights		10,010	3,800
Restricted bank deposits		2,200	–
		11,949,495	10,220,345
Current assets			
Inventories		286,046	254,060
Trade and other receivables	*8*	1,208,275	1,431,087
Prepaid lease payments		11,105	9,354
Amounts due from customers for contract work		241,415	495,318
Amounts due from associates		4,301	17,630
Amounts due from jointly controlled entities		155,041	207,350
Amounts due from related companies		16,684	57,022
Restricted bank deposits		118,270	79,817
Cash and cash equivalents		2,712,661	1,725,358
		4,753,798	4,276,996
Non-current assets classified as held for sale		–	76,977
		4,753,798	4,353,973
Current liabilities			
Trade and other payables	*9*	2,771,574	2,752,280
Amounts due to customers for contract work		564,898	465,606
Amounts due to associates		76,405	46,502
Amounts due to jointly controlled entities		327,826	102,884
Amounts due to related companies		21,261	35,507
Taxation payable		97,906	75,932
Bank and other loans - due within one year		675,796	1,239,450
Short-term debenture		808,699	630,043
Financial guarantee liability		3,383	4,384
Deferred income – current portion		16,290	692
		5,364,038	5,353,280
Liability associated with assets classified as held for sale		–	75,000
		5,364,038	5,428,280
Net current liabilities		(610,240)	(1,074,307)
Total assets less current liabilities		11,339,255	9,146,038

Capital and reserves		
Share capital	109,879	106,318
Reserves	5,051,946	4,149,253
Equity attributable to owners of the Company	5,161,825	4,255,571
Minority interests	1,316,432	1,185,869
Total equity	6,478,257	5,441,440
Non-current liabilities		
Bank and other loans - due after one year	3,048,805	2,186,720
Guaranteed notes	1,351,209	1,346,927
Deferred tax liabilities	180,859	150,873
Deferred income – non-current portion	280,125	20,078
	4,860,998	3,704,598
	11,339,255	9,146,038

Notes:

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the Directors have given careful consideration of the Group in light of its net current liabilities of approximately RMB610,240,000 as at 31 December 2009. Having considered the secured credit facilities of approximately RMB1,030,000,000 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 a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods and accordingly, no prior period adjustment has been required. However, the adoption of the new and revised HKFRSs had affected the presentation and disclosure in the consolidated financial statements as follows:

HKAS 1 (Revised 2007) "Presentation of Financial Statements"
HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 "Operating Segments"
The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, but some changes in presentation and disclosure have been made (see Note 3).

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

However, 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.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of *Improvements to HKFRSs* issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group and regularly reviewed by the chief operating decision maker, the Company's Chief Executive Officer (the "CEO"), in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. In the past, the Group's primary reporting format was business segments.

Information reported to the CEO for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services. As this is also the basis of designation of the Group's reportable segments under HKAS 14, the application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments.

Segment information reported for the prior period has been restated to conform with current period presentation.

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

Year ended 31 December 2009

	Gas connection	Sales of piped gas	Distributions of bottled liquefied petroleum gas	Sales of gas appliances	Vehicle gas refuelling stations	Consolidation
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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 and impairment losses	1,527,183	1,089,175	8,230	19,018	198,554	2,842,160
Depreciation and amortisation	(67,921)	(214,984)	(4,223)	(2,035)	(15,097)	(304,260)
Segment profit	1,459,262	874,191	4,007	16,983	183,457	2,537,900
Other income						104,586
Selling expenses						(159,025)
Administrative expenses						(857,047)
Other gains and losses						(132,642)
Share of results of associates						5,066
Share of results of jointly controlled entities						210,719
Finance costs						(328,449)
Profit before taxation						1,381,108

Year ended 31 December 2008

	Gas connection	Sales of piped gas	Distributions of bottled liquefied petroleum gas	Sales of gas appliances	Vehicle gas refuelling stations	Consolidation
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	2,421,617	3,094,767	2,009,304	78,660	661,160	8,265,508
Segment profit (loss) before depreciation and amortisation and impairment losses	1,496,436	849,355	(50,423)	19,285	176,710	2,491,363
Depreciation and amortisation	(34,940)	(196,400)	(4,224)	(2,522)	(6,736)	(244,822)
Segment profit (loss)	1,461,496	652,955	(54,647)	16,763	169,974	2,246,541
Other income						213,882
Selling expenses						(130,723)
Administrative expenses						(1,040,571)
Other gains and losses						22,419
Share of results of associates						7,347
Share of results of jointly controlled entities						192,828
Finance costs						(381,044)
Profit before taxation						1,130,679

The application of HKFRS 8 leads to change in basis of measurement of segment profit. In prior segment profit represented the gross profit earned by each segment without the allocation of part of the other income and selling expenses, the administration expenses, other gains and losses, share of results of associates and jointly controlled entities and finance costs. Segment profit under HKFRS 8 and reviewed by CEO now only represents the gross profit earned by each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

4. OTHER GAINS AND LOSSES

	2009	2008
	RMB'000	*RMB'000*
(Loss) gain on disposal of property, plant and equipment	(6,102)	10,880
Impairment loss on property, plant and equipment	(12,801)	-
(Impairment loss) reversal of impairment loss on trade and other receivables, net	(57,106)	14,934
Impairment of available-for-sale financial assets	-	(18)
Revaluation (deficit) surplus on property, plant and equipment	(9,344)	9,645
Increase (decrease) in fair value of investment properties	9,620	(13,022)
Gain on disposal of an associate	5,023	-
Loss on disposal of a subsidiary	(1,571)	-
Loss on deregistration of jointly controlled entities	(7,967)	-
Write off other receivable	(54,258)	-
Gain on disposal of prepaid lease payments	10,752	-
Fair value adjustment on interest-free advances to related companies at initial recognition	(7,350)	-
Fair value adjustment on other receivables at initial recognition	(1,538)	-
Other gains and losses	(132,642)	22,419

5. TAXATION

	2009	2008
	RMB'000	*RMB'000*
PRC Enterprise Income Tax:		
Current tax	336,172	224,855
(Over)underprovision in prior years	(19,057)	935
	317,115	225,790
Deferred tax:		
Current year	(12,656)	34,165
	304,459	259,955

The charge represents The People’s Republic of China (the “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% 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 2009 is 20%.

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 New Law, the PRC Enterprise Income Tax rates applicable to these subsidiaries range from 20% to 25% (2008:18% to 25%) and the reduced tax rates for the relief period range from 10% to 12.5% (2008: 9% 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 2010 to 2012.

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 statement of comprehensive income as follows:

	2009	**2008**
	RMB'000	*RMB'000*
Profit before taxation	1,381,108	1,130,679
Tax at the PRC Enterprise Income Tax rate of 25%	345,277	282,670
Tax effects of:		
Share of results of associates	(1,267)	(1,837)
Share of results of jointly controlled entities	(52,680)	(48,207)
Income not taxable for tax purpose	(7,032)	(29,399)
Expenses not deductible for tax purpose	65,837	79,036
Tax losses not recognised	95,736	107,948
Utilisation of tax losses previously not recognised	(8,438)	(14,353)
Deductible temporary differences not recognised	43,101	37,787
Tax concession and exemption granted to PRC subsidiaries	(29,621)	(10,113)
Different tax rates of subsidiaries	(143,655)	(167,624)
(Over)under provision in respect of prior years	(19,057)	935
Withholding tax on undistributed profit of PRC entities	16,258	23,112
Income tax charge for the year	304,459	259,955

In addition to the income tax expense charged to consolidated statement of comprehensive income, a deferred tax charge of RMB8,964,000 (2008: RMB692,000) has been recognised in other comprehensive income for the year ended 31 December 2009.

6. DIVIDENDS

	2009	**2008**
	RMB'000	*RMB'000*
Final dividend paid in respect of 2008 of HKD17.71 cents (equivalent to RMB15.62 cents) per share (2008: 2007 final dividend of HKD13.42 cents (equivalent to approximately RMB12.57 cents) per share)	157,644	119,136
Final dividend proposed in respect of 2009 of HKD 21.65 cents (equivalent to RMB19.06 cents) per share (2008: 2008 final dividend proposed of HK$17.71 cents	200,158	157,676

(equivalent to RMB15.62 cents) per share)

The final dividend in respect of 2009 of HKD21.65 cents (equivalent to approximately RMB19.06 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. The payment of the final dividend will be made on 13 July 2010, to shareholders whose name appear on the register of members of the Company on 30 June 2010.

7. 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:

	2009	**2008**
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	800,634	630,705

	2009	**2008**
	Number of shares	*Number of shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,032,665,507	1,009,759,397
Effect of dilutive potential ordinary shares:		
- share options	4,151,448	17,370,733
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,036,816,955	1,027,130,130

All share options have been exercised in June 2009 and the Group has no potential ordinary shares as at 31 December 2009.

8. TRADE AND OTHER RECEIVABLES

Included in the trade and other receivables are trade receivables amounting to RMB493,142,000 (as at 31 December 2008: RMB451,523,000). The Group allows an average credit period of 60 to 90 days to its trade customers, except for certain customers with credit period more than 90 days. The following is an aged analysis of trade receivables, net of impairment, at the end of the reporting period:

	2009	**2008**
	RMB'000	*RMB'000*
0-3 months	352,018	280,300
4-6 months	56,237	101,705
7-9 months	32,825	40,811
10-12 months	23,411	16,423
More than 1 year	28,651	12,284
	493,142	451,523

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of RMB1,124,627,000 (as at 31 December 2008: RMB1,014,053,000). The following is an aged analysis of trade payables at the end of the reporting period:

	2009	**2008**
	RMB'000	*RMB'000*
0-3 months	631,472	604,911
4-6 months	144,349	157,560
7-9 months	133,426	84,548
10 - 12 months	59,929	54,523
More than 1 year	155,451	112,511
	1,124,627	1,014,053

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	For the year ended 31 December 2009	2008	Increase/ (Decrease)
Turnover *(RMB)*	8,412,880,000	8,265,508,000	**1.8%**
Gross profit *(RMB)*	2,537,900,000	2,246,541,000	**13.0%**
Profit attributable to equity holders of the Company *(RMB)*	800,634,000	630,705,000	**26.9%**
Earnings per share – Basic *(RMB)*	77.5 cents	62.5 cents	**24.0%**
Connectable urban population	43,565,000	41,644,000	**4.6%**
Connectable residential households	14,522,000	13,881,000	**4.6%**
New natural gas connections made during the year:			
– residential households	788,281	710,035	**11.0%**
– commercial/industrial (“C/I”) customers (sites)	2,715	2,548	**6.6%**
– installed designed daily capacity for C/I customers *(m^3)*	3,961,090	2,324,171	**70.4%**
Accumulated number of connected natural gas customers:			
– residential households (Note1 & 2)	4,536,753	3,600,387	**26.0%**
– C/I customers (sites) (Note1 & 2)	13,583	10,857	**25.1%**
– installed designed daily capacity for C/I customers *(m^3)* (Note1 & 2)	13,024,142	9,009,892	**44.6%**
Accumulated number of connected piped gas (including natural gas) customers:			
– residential households	4,706,663	3,745,145	**25.7%**
– C/I customers (sites)	14,020	11,288	**24.2%**
– installed designed daily capacity for C/I customers *(m^3)*	13,486,437	9,518,438	**41.7%**
Natural gas penetration rate	31.2%	25.9%	**5.3%**
Piped gas (including natural gas) penetration rate	32.4%	27.0%	**5.4%**
Unit of piped gas sold to residential households *(m^3)*	520,170,000	420,880,000	**23.6%**
Unit of piped gas sold to C/I customers *(m^3)*	2,031,242,000	1,816,946,000	**11.8%**
Unit of gas sold to vehicles *(m^3)*	388,420,000	334,031,000	**16.3%**
Unit of bottled liquefied petroleum gas (“LPG”) sold *(ton)*	357,364	599,567	**(40.4%)**
Number of vehicle refuelling stations	162	128	**34 stations**
Number of natural gas processing stations	94	90	**4 stations**
Total length of existing intermediate and main pipelines (*km*)	14,126	12,584	**12.3%**

Notes:
1. At 31 December 2009, including a total of 1,000,996 natural gas residential customers and 2,071 natural gas C/I customers (with a total designed daily capacity of 1,067,016m^3) from acquisition/conversion.
2. 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.

CHAIRMAN’S STATEMENT

RESULTS OF THE YEAR

In 2009, the global financial crisis has exerted significant negative impacts on the economy. However, thanks to the employees of the Group who have showed indomitable spirit and worked as one to devote their efforts, the Group was able to fight against the crisis and continued to record substantial growth in its results during the year, maintaining the trend of encouraging performance as in previous years. The revenue and profit attributable to owners of the Company for the year reached RMB8,412,880,000 and RMB800,634,000 respectively, representing increases of 1.8% and 26.9% over last year respectively, while the earnings per share increased by 24.0% to RMB77.5 cents.

This year, the Group secured 7 new piped gas projects in Guangdong, Fujian, Hebei, Henan, Zhejiang, Hunan and Jiangxi respectively. As a result, the number of secured projects by the Group in China increased to 79, and the total connectable urban population coverage increased by 1,921,000 to 43,565,000. On the other hand, the Group continued its efforts in developing vehicle refuelling station business. During the year, 34 new vehicle refuelling stations were built and put into operation. As of the end of 2009, the number of vehicle refuelling stations operated by the Group reached 162 and the volume of gas sold in the vehicle segment over the total volume of gas sold increased further to 13.2%. The growth in vehicle gas sales volume not only reflected the potential for greater development in 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 to 788,281 residential households and 2,715 commercial/industrial ("C/I") customers (connected to gas appliances with total installed designed daily capacity of 3,961,090 cubic meters). As of the end of 2009, the accumulated number of residential households and C/I customers of natural gas were 4,536,753 and 13,583 (connected to gas appliances with a total installed designed daily capacity of 13,024,142 cubic meters) respectively, while in terms of all piped gas users, the accumulated number of residential households and C/I customers reached 4,706,663 and 14,020 (connected to gas appliances with a total installed designed daily capacity of 13,486,437 cubic meters) respectively. The sales volume of natural gas for the year grew rapidly by 19.6% as compared with last year to 2,631,502,000 cubic meters. The Group's ability to achieve such impressive results and maintain satisfactory growth under the negative impact of the worst global financial crisis ever fully demonstrated the benefits of the economies of scale, the robust business development of the Group, as well as our strong execution ability in vigorously raising the penetration rate of our existing gas projects.

CORPORATE MANAGEMENT

During the year, the informatisation program has been carried out and promoted in full swing, leading to a significant enhancement in the operational efficiency. Meanwhile, to realise the strategies of the Group, improvements in information systems and functions of the information modules were made based on the "customers-needs-oriented and priority in operational efficiency" principle. 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. On the other hand, the Group has developed an online business platform exclusively for its senior management on which various categories of business figures and the corresponding analysis reports are accessible by the management at anytime. Such platform has also enabled performance review meetings to be conducted with access to real-time figures online. 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 such as 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. In light of the outstanding achievement in implementing informatisation, the Group received the honor of "Achievement in Promoting Informatisation by Major Company" together with seven renowned corporations in the "Top 500 in Informatisation 2008" organised by the National Informatisation Evaluation Center during the year. The Group has also won the award "Best Management and Application of Customers' Relations" on its own.

INTERNATIONAL AWARDS

In 2009, in recognition of our excellent financial performance, prominent position in the industry, well-developed business models, enormous potential for growth and distinguished corporate governance, the Company was ranked number one by the famous financial magazine The Asset as "China's Most Promising Companies 2009" for the power and utilities sector.

On the other hand, our annual report was again awarded "Gold, Annual Reports: Energy" by the Annual International Galaxy Awards. We also received the honor of "Citation for Design, The Best Annual Reports Awards" for year 2009 from the Hong Kong Management Association. These remarkable achievements fully evidenced the timely and accurate disclosure of information with detailed contents in our annual reports, and our efficient communication with our shareholders.

In order to keep up these hard-won achievements, the management of the Group will continue to devote their best efforts to attain even more fruitful results and honors in the future.

HUMAN RESOURCES

As at the end of 2009, the Group had 16,856 employees (2008: 15,776 employees). Besides the increasing number of gas projects, another reason the Group increased its manpower was to meet the demand arising from 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 for realising the Group's strategies. Therefore, we have always attached 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, 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

In 2009, the global financial crisis that hit the world has affected the real economy of different sectors in China to different extents. However, by maximising the advantage of the industry, and its own strengths in business scale, operation models and good management, the Group, with collective efforts from its employees, was able to step out from the crisis and achieve sustained rapid growth for its year-end results. 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 an resources saving and environmental friendly society. Such change in mode of development has created the most tremendous opportunities for the natural gas industry ever.

In the past decades, human has been in pursuit of economic growth at the expense of the natural environment. They were hurting the environment so hard that it has already posed a threat to the daily lives of human being. After the Kyoto Protocol entered into force in 2004, awareness on environmental protection has received general recognition from different countries in the world. This can be evidenced by the Copenhagen Conference held during the year on which the climate issue has once again become a global concern. For the purpose of encouraging sustainable harmonic development between human being and natural environment, building a low-carbon economy with low energy consumption, low pollution level and low emission rate is a way to achieve the goal in terms of scientific development as it harmonises economic growth and environmental friendliness, and is therefore being widely promoted by different countries over the world. Meanwhile, given the current position of energy resources, promoting the use of natural gas is one of the best options for building a low-carbon economy. Being known as "green energy", natural gas is a high quality fuel which is clean and highly efficient. According to measures and calculation, the volume of carbon dioxide released from burning of petroleum and natural gas with the same level of calorific value is 22% and 41% lower than that of coal respectively. Currently, natural gas is generally considered as one of the major forms of clean energy in the 21st century that is able to satisfy the demand for energy resources, improve the energy structure and protect the atmosphere. As such, the use of natural gas, together with other kinds of green energy such as solar energy and wind power, is becoming a popular trend for development.

During the year, following the phase-by-phase completion and commencement of operation of the western section of the West-East Pipeline II and part of the Sichuan-East Pipeline, the growing demand for natural gas has received strong support and the large excess in 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, Shaanxi-Beijing Pipeline I and II, Zhong-Wu Pipeline, Sebei-Xining-Lanzhou Pipeline, as well as two branch pipelines named Hebei-Nanjing Pipeline and Huai-Wu Pipeline, has been basically completed. The western section and part of the eastern section of the West-East Pipeline II and the Sichuan-East Pipeline are expected to come into full operation in 2010, hence further strengthening the annual transportation capacity of natural gas. In addition, according to the schedule of the Chinese government, 17 natural gas pipeline projects including West Pipeline IV, China-Myanmar Pipeline and Shaanxi-Beijing Pipeline III will be completed and launched one by one by the end of 2015, while 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. In 2010, the Chinese government will accelerate the pace of planning and kick off the construction of numerous natural gas storage facilities according to the seasonal consumption of natural gas, so that the peak time usage adjustments during the peak season in winter will be enhanced.

Besides the increase in natural gas supply resulted from the construction of the nation-wide natural gas pipeline network, we have also adopted the strategy of diversified energy supply. The coal chemical project in Inner Mongolia invested by the Group in 2006 has been put into production as scheduled during the year and is running smoothly as expected. In addition, the other two liquefied natural gas (“LNG”) projects in Jincheng, Shanxi and Yinchuan, Ningxia invested by the Group have also been launched and begun production during the year, with a daily LNG supply capacity of 900,000 cubic meters. Together with the Group’s LNG projects in Beihai, Guangxi which was completed and launched earlier, the aggregate annual supply capacity of these projects will reach approximately 400 million cubic meters, thereby further improving the gas supply capability of the Group and securing more sufficient energy supply for its market development.

The global financial tsunami arose during the year has affected the economy. However, by fully utilising its good management quality, the Group was still able to strengthen its cost control and devote more resources in expanding the market. As a result, various business targets were achieved successfully or even exceeded the expectations, reflecting the Group’s ability to cope with risks and generate profits.

In 2010, 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 informatisation. Moreover, the Group will continue to build innovative business models and promote energy management projects. As of the end of 2009, the Group’s various energy service projects, including polygeneration and central supply of heat, have achieved substantial progress. This not only helps the Group to satisfy customers’ needs through providing different forms of clean energy, but also reduces the cost of consuming energy and enhances the energy efficiency. Looking ahead, in 2010, the Group will continue to remain demand-oriented and improve its competence in project evaluation, solution formulation, resources integration and project operation by applying the concept and methodology of energy efficiency, thereby maximising the advantages of natural gas, solar energy, wind power and other kinds of green clean energy. As the Group helps boosting the sustainable growth of clean energy supply, the industrial value chain of the clean energy industry will be enhanced at the same time. Meanwhile, with an aim to become an international energy distributor with excellent operation, we will expand into the international market proactively yet properly and improve our competence in managing international projects. 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.

FINANCIAL RESOURCES REVIEW

Liquidity and financial resources

As at 31 December 2009, the Group's cash on hand was equivalent to RMB2,712,661,000 (31 December 2008: RMB1,725,358,000), and its total debts was equivalent to RMB5,884,509,000 (31 December 2008: RMB5,403,140,000). Its net gearing ratio, i.e. the ratio of net debt to equity (including minority interests), was 49.0% (31 December 2008: 67.6%).

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 2009, XGII and Mr. Wang together held 31.75% interests of the Company. The remaining balance of the US$25,000,000 loan has been repaid in full during the year according to the terms of the Loan Agreements.

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 2009, the Group's total debts amounted to RMB5,884,509,000 (31 December 2008: RMB5,403,140,000), including bank loans and bonds of US$360,000,000 (equivalent to RMB2,443,721,000) and bank loans of HK$15,566,000 (equivalent to RMB13,706,000). 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 RMB1,609,706,000 that are secured by assets with an carrying amount equivalent to RMB49,478,000, all of the other loans are unsecured.

Short-term loans amounted equivalent to RMB675,796,000 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.

Commitments

(a) Capital Commitments	**At 31 December 2009** *RMB'000*	**At 31 December 2008** *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for	22,851	45,408
Capital commitment in respect of investments in joint ventures	145,721	32,400
Group's share of capital commitments contracted but not provide in respect of its joint ventures	-	1,076

(b) Other Commitments

As at 31 December 2009, the Group has commitment for acquisition of land use rights amounting to RMB10,788,000 (2008: RMB4,660,000) in respect of acquisition of land use rights in the PRC.

Financial Guarantee Liability

As at 31 December 2009, the Group had outstanding guarantees issued to banks to secure loan facilities granted to an associate to the extent of RMB30,000,000 (2008: 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 2009 is RMB3,383,000 (2008:RMB4,384,000).

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. The Audit Committee has reviewed the unaudited interim accounts and the audited annual accounts for 2009. Five 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.

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 of the Company held on 26 May 2009 due to unexpected business commitments. Alternatively, Mr. Cheng Chak Ngok, the executive Director and Company Secretary 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$21.65 cents (2008: HK$ 17.71 cents) (equivalent to approximately RMB19.06 cents (2008: RMB15.62 cents)) per share payable to shareholders of the Company whose names are on the register of members on Wednesday, 30 June 2010. 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 13 July 2010. The register of members will be closed from Thursday, 24 June 2010 to Wednesday, 30 June 2010, 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 Wednesday, 23 June 2010.

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 31 March 2010

As at the date of this announcement, the Board comprises the following directors:

Executive Directors:
Mr. Wang Yusuo (Chairman)
Mr. Cheung Yip Sang (Chief Executive Officer)
Mr. Zhao Jinfeng
Mr. Yu Jianchao
Mr. Cheng Chak Ngok
Mr. Liang Zhiwei
Ms. Zhai Xiaoqin

Non-executive Directors:
Ms. Zhao Baoju
Mr. Jin Yongsheng

Independent Non-executive Directors:
Mr. Wang Guangtian
Ms. Yien Yu Yu, Catherine
Mr. Kong Chung Kau