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新奧能源控股有限公司
ENN Energy Holdings Limited

（於開曼群島註冊成立之有限公司）

（股份代號：2688）

海外監管公告

本海外監管公告乃根據香港聯合交易所有限公司（「**聯交所**」）證券上市規則（「**上市規則**」）第13.09(2)條刊發。

茲提述新奧能源控股有限公司（「**本公司**」）就票據發行於二零一一年四月二十九日及二零一一年五月八日刊發之公告（「**該等公告**」）。除非另有界定外，本公告所用的所有詞彙與該等公告所界定者具有相同涵義。

請參閱隨附有關票據的發售備忘錄（「**發售備忘錄**」），其已於二零一一年五月十六日於新加坡證券交易所有限公司網站刊登。

於聯交所網站刊登發售備忘錄僅為促使向香港投資者同步發佈資料並遵守上市規則第13.09(2)條，且概無任何其他目的。

發售備忘錄並不構成向任何司法權區的公眾人士提呈發售任何證券的招股章程、通告、通函、冊子或廣告，亦非邀請公眾人士提出認購或購買任何證券的要約，且不旨在邀請公眾人士提出認購或購買任何證券的要約。

發售備忘錄不得被視作誘使認購或購買本公司任何證券，亦不擬構成有關誘使。概不得根據發售備忘錄所載的資料作出任何投資決定。

承董事會命
新奧能源控股有限公司
執行董事及公司秘書
鄭則鍔

香港，二零一一年五月十六日

於本公告日期，董事會由下列董事組成：

執行董事：
王玉鎖先生（主席）
張葉生先生（首席執行官）
趙金峰先生
于建潮先生
鄭則鍔先生
梁志偉先生
翟曉勤女士
趙勝利先生
王冬至先生

非執行董事：
趙寶菊女士
金永生先生

獨立非執行董事：
王廣田先生
嚴玉瑜女士
江仲球先生

STRICTLY CONFIDENTIAL – DO NOT FORWARD

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) UNDER RULE 144A OR (2) PERSONS OR ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the offering memorandum attached to this e-mail. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached offering memorandum. In accessing the attached offering memorandum, you agree to be bound by the following terms and conditions including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: You have accessed the attached document on the basis that you have confirmed your representation to Citigroup Global Markets Inc., BOCI Asia Limited, Barclays Bank PLC and The Royal Bank of Scotland plc (the "**Initial Purchasers**") that (l)(i) you are not resident the United States and to the extent you purchase the securities described in the attached offering memorandum, you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**") OR (ii) you are acting on behalf of, or you are a qualified institutional buyer ("**QIB**"), as defined in Rule 144A under the U.S. Securities Act, AND (2) that you consent to delivery of the attached offering memorandum and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Initial Purchasers or any person who controls them or any of their directors, employees representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the issuer of the securities or to the Initial Purchasers to subscribe for or purchase any of the securities described therein and access has been limited so that it shall not constitute a general advertisement or solicitation in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be described to be made by the Initial Purchasers or their respective affiliates on behalf of the issuer in such jurisdiction.

You are reminded that you have accessed the attached offering memorandum on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

Actions That You May Not Take: You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORIZED AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED OFFERING MEMORANDUM, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other items of a destructive nature. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

CONFIDENTIAL

ENN Energy Holdings Limited

(incorporated with limited liability under the laws of the Cayman Islands)

US$750,000,000
6.00% Senior Notes due 2021
Issue Price: 99.274%
plus accrued interest, if any, from the issue date

The 6.00% Senior Notes due 2021, or the Notes, will be senior obligations of ENN Energy Holdings Limited, or the Company. The Notes will bear interest from May 13, 2011, at 6.00% per annum payable semi-annually in arrears on May 13 and November 13 of each year, beginning November 13, 2011. The Notes will mature on May 13, 2021.

At any time, we may at our option redeem all or any portion of the Notes at 100% of the principal amount thereof plus the applicable premium as further described in this offering memorandum plus accrued and unpaid interest, if any, to the redemption date. We may redeem all, but not less than all, of the Notes at a price equal to their principal amount plus accrued and unpaid interest upon certain changes in the tax laws of the relevant tax jurisdiction. Upon the occurrence of a Change of Control, as defined in the indenture governing the Notes, or the Indenture, we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase.

The Notes will (1) be unsecured, (2) be effectively junior to our secured debt to the extent of the value of the assets securing such debt, (3) rank equally in right of payment with all our existing and future unsecured unsubordinated debt, (4) rank senior in right of payment to all our existing and future subordinated debt and (5) be effectively subordinated to all our existing and future debt of our subsidiaries.

For a more detailed description of the Notes, see "Description of the Notes" beginning on page 126.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited, or the SGX-ST, for the listing and quotation of the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering memorandum. Admission of the Notes to the Official List of, and the quotation of the Notes on, the SGX-ST is not to be taken as an indication of the merits of the Company, its associated companies or the Notes.

The Notes are expected to be rated BBB- by Standard and Poor's Ratings Group, a division of McGraw-Hill Companies, Inc., or Standard & Poor's, Baa3 by Moody's Investors Service, Inc., or Moody's, and BBB by Fitch Ratings Ltd., or Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 10.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, or the Securities Act, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (1) to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act, and (2) outside the United States in offshore transactions in compliance with Regulation S under the Securities Act. For a description of certain restrictions on resale or transfer, see "Transfer Restrictions" beginning on page 157.

It is expected that the delivery of the Notes will be made to investors in book-entry form through the facilities of The Depository Trust Company on or about May 13, 2011.

Joint Global Coordinators

Citi **BOC International**

Joint Bookrunners and Joint Lead Managers

Citi **BOC International** **Barclays Capital** **The Royal Bank of Scotland**

The date of this offering memorandum is May 6, 2011

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This offering memorandum does not constitute an offer to sell to, or a solicitation of an offer to buy from, any person in any jurisdiction to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering memorandum or that the information contained in this offering memorandum is correct as of any time after that date.

The SGX-ST takes no responsibility for the contents of this offering memorandum, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

We, having made all reasonable inquiries, confirm that: (i) this offering memorandum contains all information with respect to us, our subsidiaries and affiliates referred to in this offering memorandum and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this offering memorandum relating to us and our subsidiaries and our affiliates are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this offering memorandum with regard to us and our subsidiaries and affiliates are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to us, our subsidiaries and affiliates and the Notes, the omission of which would, in the context of the issue and offering of the Notes, make this offering memorandum, as a whole, misleading in any material respect; and (v) we have made all reasonable enquiries to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this offering memorandum before making a decision whether to purchase the Notes. You must not use this offering memorandum for any other purpose, or disclose any information in this offering memorandum to any other person.

Notwithstanding anything to the contrary contained herein, a prospective investor (and each employee, representative, or other agent of a prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this offering memorandum and all materials of any kind that are provided to the prospective investor relating to such tax treatment and tax structure (as such terms are defined in Treasury Regulation section 1.6011-4). This authorization of tax disclosure is retroactively effective to the commencement of discussions with prospective investors regarding the transactions contemplated herein.

We have prepared this offering memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section entitled "Transfer Restrictions" below.

No representation or warranty, express or implied, is made by Citigroup Global Markets Inc., BOCI Asia Limited, Barclays Bank PLC and The Royal Bank of Scotland plc, together, the "Initial Purchasers," or the Trustee, the Paying Agent or Registrar, or any of their holding companies, affiliates, subsidiaries or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or should be relied upon as, a promise or representation, whether as to the past, present or the future. The Initial Purchasers assume no responsibility for the accuracy or completeness of the information set forth herein.

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASERS, AS JOINT STABILIZING MANAGERS, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF THE JOINT STABILIZING MANAGERS, AND NOT FOR US OR ON OUR BEHALF.

Each person receiving this offering memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Initial Purchasers, the Trustee, the Paying Agent or Registrar or any person affiliated with any of them in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates or the Notes (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of our company and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, the Initial Purchasers, the Trustee, the Paying Agent or the Registrar.

The Notes have not been approved or disapproved of by the United States Securities and Exchange Commission, or the SEC, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. We are not, and the Initial Purchasers are not, making an offer to sell the Notes, in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the Notes may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this offering memorandum, see "Transfer Restrictions" and "Plan of Distribution" below.

This offering memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. We are not making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own professional advisors for legal, business, tax and other advice regarding an investment in the Notes.

We reserve the right to withdraw the offering of Notes at any time, and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The Initial Purchasers and certain related entities may acquire for their own account a portion of the Notes.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED 1955, AS AMENDED, OR RSA, WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms "we," "us," "our," the "Company," the "Group" and words of similar import, we are referring to ENN Energy Holdings Limited itself, or to ENN Energy Holdings Limited and its consolidated subsidiaries, as the context requires.

All references in this offering memorandum to "U.S. dollars" and "US$" are to United States dollars; all references to "HK dollars" and "HK$" are to Hong Kong dollars; and all references to "RMB" or "Renminbi" are to Renminbi, the official currency of the PRC.

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.6000 to US$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2010, and all translations from HK dollars into U.S. dollars were made at the rate of HK$7.7810 to US$1.00, the noon buying rate in New York City for cable transfers payable in HK dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2010. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or HK dollars, or vice versa, at any particular rate or at all. For further information relating to the exchange rates, see "Exchange Rate Information."

References in this offering memorandum to accounting periods are based on our Company's fiscal year, which ends on December 31.

References to the "PRC" and "China" are to the People's Republic of China and for the purposes of this offering memorandum, do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan.

"PRC government" means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof.

"2012 Guaranteed Notes" means the US$200 million aggregate principal amount of 7.375% Guaranteed Notes due 2012 issued by our Company and unconditionally and irrevocably guaranteed by certain subsidiaries of our Company. For further information relating to the 2012 Guaranteed Notes, see "Description of Other Material Indebtedness – 2012 Guaranteed Notes."

In this offering memorandum, because certain amounts have been rounded, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items, and actual numbers may differ from those contained herein due to rounding.

FORWARD-LOOKING STATEMENTS

This offering memorandum includes "forward-looking statements." All statements other than statements of historical fact contained in this offering memorandum, including, without limitation, those regarding our future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “aim,” “intend,” “will,” “may,” “anticipate,” “seek,” “should,” “estimate” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- general economic conditions, including those related to the natural gas industry and the PRC;
- government regulations, restrictions and approval processes, including the PRC government’s promotion of the natural gas industry;
- competitive conditions and our ability to compete under those conditions;
- our ability to implement our business and operating strategies;
- our ability to expand and manage our growth, both within China and abroad;
- possible disruptions to commercial activities due to natural and human-induced disasters, including, but not limited to, floods, earthquakes, epidemics, terrorist attacks and armed conflict;
- fluctuations in currency exchange rates;
- supplier issues, including, but not limited to, variations in price, available quantity or delivery; and
- those other risks identified in the “Risk Factors” section of this offering memorandum.

Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for us to predict which will arise. In addition, we cannot access the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with resales of the Notes, we are required to furnish upon request of a holder of the Notes and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) if at the time of such request we are neither a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, or the Exchange Act, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, for so long as any such Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act. So long as any of the Notes remains outstanding, we will provide to the Trustee for forwarding to the holders of the Notes our semi-annual and annual financial statements.

ENFORCEMENT OF CIVIL LIABILITIES

We are an exempted limited liability company incorporated under the laws of the Cayman Islands. The Cayman Islands has a less developed body of securities laws as compared to the United States and provides protections for investors to a significantly lesser extent.

All of our assets are located outside the United States. In addition, all of our directors and officers are nationals or residents of countries other than the United States (principally of the PRC or Hong Kong), and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or such persons or to enforce against them or against us, judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We expect to appoint Law Debenture Corporate Services Inc. at 400 Madison Avenue, 4th Floor, New York New York 10017, U.S.A. as the respective agent to receive service of process with respect to any action brought against us in the United States federal courts located in the County of New York under the federal securities laws of the United States or of any state of the United States or any action brought against us in the courts of the State of New York in the County of New York under the securities laws of the State of New York.

We have been advised by our Cayman Islands legal advisors, Maples and Calder, that the courts of the Cayman Islands are unlikely (i) to recognize or enforce against our Company judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any state thereof and (ii) in original actions brought in the Cayman Islands, to impose liabilities against our Company predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, on the grounds that such provisions are penal in nature. However, in the case of laws that are not penal in nature, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognize and enforce a judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given provided that such judgment is final and conclusive, for a liquidated sum, not in respect of taxes or a fine or penalty, is not inconsistent with a Cayman Islands' judgment in respect of the same matter, and was not obtained in a manner, and is not of a kind the enforcement of which is, contrary to the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands' court may stay proceedings if concurrent proceedings are being brought elsewhere.

We have been advised by our Hong Kong legal advisor, Sidley Austin, that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. However, under Hong Kong common law, a foreign judgment (including one from a court in the United States predicated upon U.S. federal or state securities laws) may be enforced in Hong Kong by bringing an action in a Hong Kong court, and then seeking summary or default judgment on the strength of the foreign judgment, provided that the foreign judgment is for a debt or definite sum of money and is final and conclusive on the merits. In addition, the Hong Kong courts may refuse to recognize or enforce a foreign judgment if such judgment:

(a) was obtained by fraud;

(b) was rendered by a foreign court that lacked the appropriate jurisdiction at the time;

(c) is contrary to public policy or natural justice;

(d) is for penal damages; or

(e) is based on foreign penal, revenue or other public law.

We have also been advised by our PRC legal advisor, Commerce & Finance Law Office, that the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States. Therefore, it may be difficult to (a) enforce judgments of U.S. courts obtained against us, our directors or officers or their directors or officers predicated upon the civil liability provisions of the U.S. federal or state securities laws or (b) entertain original actions brought in China against us, our directors or officers or their directors or officers predicated upon the U.S. federal or state securities laws.

PRESENTATION OF FINANCIAL INFORMATION

Our financial statements are prepared in accordance with Hong Kong Financial Reporting Standards, or HKFRS, which differ in certain respects from generally accepted accounting principles in certain other countries. Certain material differences between HKFRS and generally accepted accounting principles in the United States, or U.S. GAAP, are described herein under "Summary of Certain Differences between HKFRS and U.S. GAAP." Unless the context otherwise requires, financial information in this offering memorandum is presented on a consolidated basis.

During the year ended December 31, 2010, we changed our accounting policy to state our land and buildings at cost, less any accumulated depreciation and accumulated impairment losses. In previous years, our land and buildings held for use in production or supply of goods or services were stated at their revalued amounts. We have also adopted the amendment to HKAS 17 Leases, which became effective on 1 January 2010 to reassess the reclassification of leasehold land based on the information existed at the inception of the leases. As the results, leasehold land that qualify as finance leases have been reclassified from prepaid lease payments to property, plant and equipment. This change in accounting policy and adoption of amendment to HKAS 17 are reflected in our consolidated financial statements as of and for the year ended December 31, 2010 beginning on page F-3 of this offering memorandum and have been accounted for in accordance with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors." We accounted for this change in accounting policy and adoption of amendment to HKAS 17 retrospectively by restating the financial information of prior years contained in our audited consolidated financial statements as of and for the year ended December 31, 2010, and we present our financial information on this restated basis throughout this offering memorandum (except for the audited consolidated financial information as of and for the year ended December 31, 2009 appearing on pages F-100 to F-183, which has not been restated). For a summary of the impact of this change in accounting policy and adoption of amendment to HKAS 17, please refer to notes 3 and 4 of our consolidated financial statements as of and for the year ended December 31, 2010. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – Change in Accounting Policy and Adoption of New and Revised Standards." Such restated financial information has not been audited by our independent auditors and you should not place undue reliance on it. The financial information as of and for the year ended December 31, 2008 as presented in this offering memorandum, as well as the audited consolidated financial statements as of and for the year ended December 31, 2009 appearing on pages F-100 to F-183 of this offering memorandum (and comparative 2008 financial information therein) have not been restated to reflect this change in accounting policy and adoption of amendment to HKAS I7. Unless otherwise stated and other than the audited consolidated financial statements as of and for the year ended December 31, 2009 included in this offering memorandum on pages F-100 to F-183, references to our consolidated financial information as of and for the year ended December 31, 2009 in this offering memorandum refer to such restated financial information.

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire offering memorandum, including the section entitled "Risk Factors" and our consolidated financial statements and related notes thereto, before making an investment decision.

Overview

We are one of the largest privately-owned piped gas operators in China. Our principal business is the investment in, and the construction, operation and management of, gas pipeline infrastructure, the sale and distribution of piped gas and bottled LPG and the operation of vehicle refueling stations in China. We are also involved in the sale of gas appliances and equipment, the production of stored value card gas meters, the provision of repair, maintenance and other services in connection with gas supply and energy management services that assist our customers in optimizing energy usage.

We commenced operations in 1993 and have since developed into one of the leading privately owned gas operators in the PRC piped gas industry. As of the date of this offering memorandum, we had a total of 90 operational locations. We operate our piped natural gas distribution infrastructure on an exclusive basis, for periods ranging from 20 to 30 years, in cities and urban areas located in 15 provinces, municipalities and autonomous regions. In April 2010, we also acquired our first international pilot project in Vietnam through a joint venture with The Vietnam Oil and Gas Group, or PetroVietnam, to develop piped gas and vehicle gas refueling businesses.

We typically apply for and obtain exclusive rights to distribute piped natural gas from the local governments in China. We may also acquire exclusive rights by entering into joint-ventures with existing local piped gas distributors. In addition, we construct and maintain city piped gas networks in locations in which we have acquired exclusive rights to supply piped gas. We charge connection fees from residential customers on a "per connection" basis and commercial and industrial, or C/I, customers on a "daily maximum capacity" basis for connection to our piped gas network. We receive gas usage charges from connected customers based on the tariffs set by the local governments.

We intend to grow organically by increasing the penetration rates and the number of connected customers for our 90 existing operational locations while continuing to acquire new projects in China, with a particular focus on the commercial and industry zones of emerging cities. In 2008, 2009 and 2010, we secured four, seven and eleven new projects, respectively, in China, which added an urban connectible population of approximately 0.8 million, 1.4 million and 2.7 million, respectively to our total connectable urban population as of December 31, 2010. As the projects in our operational locations continue to mature, we have become less reliant on one-time gas connection fees and sales of piped gas have increased as a proportion of our revenue, creating a more stable source of recurring revenue.

For the three years ended December 31, 2008, 2009 and 2010, our audited consolidated revenue was approximately RMB8,265.5 million, RMB8,412.9 million and RMB11,215.1 million (US$1,699.3 million), respectively, and our audited consolidated net profit was approximately RMB870.7 million, RMB1,078.9 million and RMB1,401.2 million (US$212.3 million), respectively. As of December 31, 2010, our audited consolidated total assets were approximately RMB19,639.5 million (US$2,975.7 million) and our shareholders' funds were approximately RMB6,031.4 million (US$913.9 million).

Our shares were listed on the Growth Enterprise Market of the The Stock Exchange of Hong Kong Limited, or GEM, on May 10, 2001 and were transferred to the Main Board of the The Stock Exchange of Hong Kong Limited, or the Hong Kong Stock Exchange, (stock code: 2688) on June 3, 2002. Based on the closing price of our shares on the Hong Kong Stock Exchange on April 28, 2011, our market capitalization was approximately HK$27.9 billion (US$3.6 billion).

Our Competitive Strengths

We believe that our position as a leading piped gas operator in China is largely attributed to the following competitive strengths:

- Well-positioned in the fast growing natural gas market in China;
- Strategic operational locations with strong growth potential;
- Diversified project portfolio and stable cash flow;
- Clear expansion strategy with low risk profile; and
- Proven track record and experienced management team.

Our Business Strategies

We intend to maintain our position as a leading piped gas operator in China by focusing on the development of our core business of distributing piped natural gas while growing our vehicle refueling station business and energy management services. We intend to achieve our strategic objectives by:

- Increasing gas penetration rates of residential households and gas consumption of C/I customers in our existing operational locations;
- Expanding our vehicle gas refueling station businesses;
- Maintaining strategic alliances with suppliers;
- Exploring strategic joint ventures and acquisitions in domestic as well as international markets; and
- Enhancing management and efficient utilization of energy sources.

General Information

We were incorporated in the Cayman Islands on July 20, 2000, as an exempted company with limited liability. On August 13, 2010, we changed the English name of our group from "Xinao Gas Holdings Limited" to "ENN Energy Holdings Limited." Our principal executive office is at Building A, Xinao Technology Park, Guangyang East Road, Langfang Economic and Technical Development Zone, Hebei, People's Republic of China. Our registered office is located at P.O. Box 309, Ugland House, George Town, Grand Cayman, Cayman Islands. Our website is http://www.xinaogas.com. Information contained on our website does not constitute part of this offering memorandum.

THE OFFERING

The following summary contains basic information about the Notes. It is not intended to be complete and it is subject to important limitations and exceptions. For a more complete understanding of the Notes, please refer to the section entitled "Description of the Notes" in this offering memorandum.

Issuer	ENN Energy Holdings Limited.
Notes offered	US$750 million aggregate principal amount of 6.00% Senior Notes due 2021.
Issue price	99.274% of the aggregate principal amount of the Notes.
Maturity date	May 13, 2021.
Interest	6.00% per annum.
Interest payment dates	May 13 and November 13, commencing on November 13, 2011.
Optional redemption	At any time, we may at our option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to the redemption date, as set forth in "Description of the Notes – Optional redemption."
Optional tax redemption	The Notes will be redeemable at our option, in whole but not in part, at any time, at their principal amount, together with accrued and unpaid interest, if any, to the date of redemption, upon certain changes in the tax laws of any relevant tax jurisdiction becoming effective that would impose withholding taxes or other deductions on the payments on the Notes. See "Description of the Notes – Optional tax redemption."
Additional amounts	Subject to the limitations described under "Description of the Notes – Payment of additional amounts," we will pay to each holder of a Note such additional amounts as may be necessary in order that the net amounts paid to such holder, after such deduction or withholding, including deduction or withholding on the additional amounts, will be not less than the amount specified in such Note to which such holder is entitled.
Repurchase of Notes upon a change of control	Upon the occurrence of a change of control, we will make an offer to repurchase all outstanding notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the repurchase date. See "Description of the Notes – Repurchase of Notes upon a Change of Control."

Ranking..	The Notes will: • be unsecured; • be effectively junior to our secured debt to the extent of the value of the assets securing such debt; • rank equally in right of payment with all of our existing and future unsecured unsubordinated debt; • rank senior in right of payment to all our existing and future subordinated debt; and • be effectively subordinated to all existing and future debt of our subsidiaries.
Covenants.....................................	We will issue the Notes under an Indenture with Citicorp International Limited, as trustee. The Indenture will, among other things, limit our ability to: • create liens; • enter into mergers or consolidations; and • enter into sale and leaseback transactions. These covenants will be subject to a number of important exceptions and qualifications. For more details, see "Description of the Notes." The Indenture will not contain any other covenants or other provisions designed to afford holders of the Notes protection in the event of a highly leveraged transaction involving us that could adversely affect the holders.
Transfer restrictions.......................	We have not registered the Notes under the Securities Act or any other applicable securities laws and the notes are subject to restrictions on transferability and resale. For more information, see "Transfer Restrictions."
Denomination	The Notes will be issued only in fully registered form, without coupons, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of The Depository Trust Company, or DTC.
Listing and trading of the Notes.....	The Notes are a new issue of securities and there is currently no established trading market for the notes. Accordingly, there can be no assurance as to the development or liquidity of any market for the notes. Approval in-principle has been received for the listing of the Notes on the Official List of the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of US$200,000 for as long as the Notes are listed on the SGX-ST.

Book-entry only	The Notes will be issued in book-entry form through the facilities of DTC for the accounts of its participants, including Euroclear and Clearstream, Luxembourg. For a description of certain factors relating to clearance and settlement, see "Description of the Notes – Notes, Delivery and Form."
Delivery of the Notes	We expect to make delivery of the Notes on or about May 13, 2011, which we expect will be the fifth business day following the date of this offering memorandum, referred to as "T+5." You should note that the initial trading of the notes may be affected by the T+5 settlement. See "Plan of Distribution."
Ratings	The Notes are expected to be rated BBB- by Standard and Poor's, BBB by Fitch and Baa3 by Moody's. We cannot assure investors that these ratings will be confirmed or will not be adversely revised or withdrawn either before or after delivery of the Notes.
Use of proceeds	We intend to use the net proceeds from the issue of the Notes to refinance our 2012 Guaranteed Notes, to pay off certain short-term loans of our PRC subsidiary, Xinao (China) Gas Investment Company Limited, and project loans of certain of our project companies, for business expansion and the acquisition of new projects, to finance our capital expenditures and for general corporate purposes. See "Use of Proceeds."
Additional notes	We may issue an unlimited principal amount of additional Notes having identical terms and conditions as the outstanding Notes from time to time. We will only be permitted to issue such additional Notes if, at the time of such issuance, we were in compliance with the covenants contained in the Indenture. Any such additional Notes will be part of the same issue as the Notes that we are currently offering and the holders of such additional Notes will vote on all matters with the holders of the outstanding Notes.
Trustee, Paying Agent and Transfer Agent	Citicorp International Limited.
Governing law	The Notes and the Indenture will be governed by, and construed in accordance with, the laws of the State of New York.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following table presents our summary consolidated financial and other data. The summary consolidated statement of comprehensive income for the year ended December 31, 2008 and the summary consolidated statement of financial position as of December 31, 2008 set forth below have been derived from our consolidated financial statements as of and for the year ended December 31, 2009, as audited by Deloitte Touche Tohmatsu, independent certified public accountants, and included elsewhere in this offering memorandum. The summary of consolidated statement of comprehensive income for the years ended December 31, 2009 and 2010 and summary of consolidated statement of financial position as of December 31, 2009 and 2010 set forth below have been derived from our consolidated financial statements as of and for the year ended December 31, 2010, as audited by Deloitte Touche Tohmatsu, independent certified public accountants, and included elsewhere in this offering memorandum. The 2009 financial information as contained therein was restated to reflect the change in accounting policy and adoption of certain new and revised standards as described below.

Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions. See "Summary of Certain Differences Between HKFRS and U.S. GAAP." The summary financial data below should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

During the year ended December 31, 2010, we changed our accounting policy to state our land and buildings at cost, less any accumulated depreciation and accumulated impairment losses. In previous years, our land and buildings held for use in production or supply of goods or services were stated at their revalued amounts. We have also adopted the amendment to HKAS 17 Leases, which became effective on 1 January 2010 to reassess the reclassification of leasehold land based on the information existed at the inception of the leases. As the results, leasehold land that qualify as finance leases have been reclassified from prepaid lease payments to property, plant and equipment. This change in accounting policy and adoption of amendment to HKAS 17 are reflected in our consolidated financial statements as of and for the year ended December 31, 2010 beginning on page F-3 of this offering memorandum and have been accounted for in accordance with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors." We accounted for this change in accounting policy and adoption of amendment to HKAS 17 retrospectively by restating the financial information of prior years contained in our audited consolidated financial statements as of and for the year ended December 31, 2010, and we present our financial information on this restated basis throughout this offering memorandum (except for the audited consolidated financial information as of and for the year ended December 31, 2009 appearing on pages F-100 to F-183, which has not been restated). For a summary of the impact of this change in accounting policy and adoption of amendment to HKAS 17, please refer to notes 3 and 4 of our consolidated financial statements as of and for the year ended December 31, 2010. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – Change in Accounting Policy and Adoption of New and Revised Standards." Such restated financial information has not been audited by our independent auditors and you should not place undue reliance on it. The financial information as of and for the year ended December 31, 2008, as presented in this offering memorandum, as well as the audited consolidated financial statements as of and for the year ended December 31, 2009 appearing on pages F-100 to F-183 of this offering memorandum (and comparative 2008 financial information therein), have not been restated to reflect the adoption of this new accounting policy and adoption of amendment to HKAS 17. Unless otherwise stated and other than the audited consolidated financial information as of and for the year ended December 31, 2009 included in this offering memorandum on pages F-100 to F-183, references to our consolidated financial statements as of and for the year ended December 31, 2009 in this offering memorandum refer to such restated financial information. As the financial information for fiscal year 2008 has not been restated to reflect this change in accounting policy and adoption of amendment to HKAS 17, certain line items are not directly comparable to our financial information for fiscal year 2009, as restated, and for fiscal year 2010. Accordingly, the comparative information, discussion and analysis of the unrestated financial information for fiscal year 2008 against the financial information for fiscal year 2009, as restated, and for fiscal year 2010 in this offering memorandum may not be meaningful, and you are cautioned not to place undue reliance on such information, discussion or analysis. See "Risk Factors – Risks Relating to Our Business – Our financial information for fiscal year 2008 has not been restated to reflect a change in accounting policy and adoption of certain new and revised standards and therefore certain line items are not directly comparable to our financial information for fiscal years 2009, as restated, and 2010."

Summary Consolidated Statement of Comprehensive Income Data

	Year ended December 31,			
	2008	2009	2010	
	RMB'000	RMB'000 (Restated)	RMB'000	US$'000
Revenue	8,265,508	8,412,880	11,215,089	1,699,256
Cost of sales	(6,018,967)	(5,872,730)	(8,203,433)	(1,242,944)
Gross profit	2,246,541	2,540,150	3,011,656	456,312
Other income	213,882	104,586	189,049	28,644
Other gains and losses	22,419	(132,642)	20,638	3,127
Distribution and selling expenses	(130,723)	(159,025)	(212,511)	(32,199)
Administrative expenses	(1,040,571)	(857,047)	(1,169,146)	(177,143)
Share of results of associates	7,347	5,066	5,459	827
Share of results of jointly controlled entities	192,828	210,719	276,671	41,920
Finance costs	(381,044)	(328,449)	(310,851)	(47,099)
Profit before tax	1,130,679	1,383,358	1,810,965	274,389
Income tax expense	(259,955)	(304,459)	(409,800)	(62,091)
Profit for the year	870,724	1,078,899	1,401,165	212,298
Other comprehensive income:				
Gain on revaluation of properties	5,492	–	–	–
Income tax relating to other comprehensive income	(692)	–	–	–
Other comprehensive income for the year (net of tax)	4,800	–	–	–
Total comprehensive income for the year	875,524	–	–	–
Profit for the year attributable to:				
Owners of our Company	630,705	802,876	1,013,087	153,498
Non-controlling interests	240,019	276,023	388,078	58,800
Profit for the year	870,724	1,078,899	1,401,165	212,298
Total comprehensive income attributable to:				
Owners of our Company	634,830	802,876	1,013,087	153,498
Non-controlling interests	240,694	276,023	388,078	58,800
Total comprehensive income	875,524	1,078,899	1,401,165	212,298
Other financial data				
EBITDA(1)	1,807,345	2,069,878	2,546,947	385,902
EBITDA margin(2)	21.9%	24.6%	22.7%	22.7%
Total Debt(3)	5,403,140	5,884,509	6,262,913	948,926
Total Debt(3)/EBITDA	3.0	2.8	2.5	2.5
EBITDA/gross interest expense	4.7	6.3	8.2	8.2
Capital expenditures	1,216,588	1,608,711	2,188,884	331,649

(1) We calculate EBITDA by adding finance costs, depreciation and amortization expenses to profit before tax and subtracting interest income and gain and loss arising from changes in fair values of investment properties. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to incur and service debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to owners of our Company or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, finance costs or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to

generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. For a reconciliation of profit before tax to EBITDA, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures"

(2) EBITDA margin is calculated by dividing EBITDA by revenue.

(3) Total debt includes all long-term and short-term bank loans, the 2012 Guaranteed Notes and short-term debentures and certain other indebtedness.

Summary Consolidated Statement of Financial Position Data

	As of December 31,			
	2008	2009	2010	
	RMB'000	RMB'000 (Restated)	RMB'000	US$'000
Non-current assets				
Property, plant and equipment	7,855,387	9,028,490	10,800,123	1,636,382
Prepaid lease payments	472,228	524,141	658,096	99,711
Investment properties	63,005	72,625	53,845	8,158
Goodwill	168,926	171,862	191,841	29,067
Intangible assets	464,712	449,773	702,352	106,417
Interests in associates	292,483	323,880	487,683	73,891
Interests in jointly controlled entities	757,620	1,015,641	1,361,265	206,252
Available-for-sale financial assets	13,956	14,056	14,433	2,187
Loan receivable	12,000	9,000	6,000	909
Other receivable	–	30,581	72,439	10,976
Amounts due from associates	–	71,795	20,700	3,136
Amounts due from jointly controlled entities	20,000	26,644	–	–
Amounts due from related companies	–	34,582	20,489	3,104
Deferred tax assets	–	33,678	130,954	19,842
Deposits paid for investments	96,228	62,200	30,000	4,545
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights	3,800	10,010	5,376	815
Restricted bank deposits	–	2,200	5,305	804
Total non-current assets	10,220,345	11,881,158	14,560,901	2,206,196
Current assets				
Inventories	254,060	286,046	249,019	37,730
Trade and other receivables	1,431,087	1,208,275	1,356,055	205,463
Prepaid lease payments	9,354	11,105	12,576	1,905
Amounts due from customers for contract work	495,318	241,415	306,913	46,502
Amounts due from associates	17,630	4,301	11,501	1,743
Amounts due from jointly controlled entities	207,350	155,041	213,585	32,361
Amounts due from related companies	57,022	16,684	12,808	1,941
Restricted bank deposits	79,817	118,270	64,891	9,832
Cash and cash equivalents	1,725,358	2,712,661	2,851,300	432,015
	4,276,996	4,753,798	5,078,648	769,492
Non-current assets classified as held for sale	76,977	–	–	–
Total current assets	4,353,973	4,753,798	5,078,648	769,492

	As of December 31,			
	2008	2009	2010	
	RMB'000	RMB'000 (Restated)	RMB'000	US$'000
Current liabilities				
Trade and other payables	2,752,280	2,771,574	3,572,688	541,316
Amounts due to customers for contract work	465,606	564,898	664,839	100,733
Amounts due to associates	46,502	76,405	69,297	10,500
Amounts due to jointly controlled entities	102,884	327,826	554,223	83,973
Amounts due to related companies	35,507	21,261	41,137	6,233
Taxation payable	75,932	97,906	172,288	26,104
Bank and other loans – due within one year	1,239,450	675,796	1,568,742	237,688
Short-term debentures	630,043	808,699	810,607	122,819
Financial guarantee liability	4,384	3,383	5,544	840
Deferred income	692	16,290	29,109	4,410
	5,353,280	5,364,038	7,488,474	1,134,616
Liability associated with assets classified as held for sale	75,000	–	–	–
Total current liabilities	5,428,280	5,364,038	7,488,474	1,134,616
Net current liabilities	(1,074,307)	(610,240)	(2,409,826)	(365,124)
Total assets less current liabilities	9,146,038	11,270,918	12,151,075	1,841,072
Capital and reserves				
Share capital	106,318	109,879	109,879	16,648
Reserves	4,149,253	5,006,792	5,921,570	897,208
Equity attributable to owners of the Company	4,255,571	5,116,671	6,031,449	913,856
Non-controlling interests	1,185,869	1,309,871	1,508,402	228,546
Total equity	5,441,440	6,426,542	7,539,851	1,142,402
Non-current liabilities				
Bank and other loans – due after one year	2,186,720	3,048,805	2,567,632	389,035
Guaranteed notes	1,346,927	1,351,209	1,315,932	199,384
Deferred tax liabilities	150,873	164,237	225,034	34,096
Deferred income	20,078	280,125	502,626	76,155
Total non-current liabilities	3,704,598	4,844,376	4,611,224	698,670
	9,146,038	11,270,918	12,151,075	1,841,072

RISK FACTORS

You should carefully consider the risks and uncertainties described below and other information contained in this offering memorandum before investing in the Notes. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition or results of operations. If any of the possible events described below occur, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment.

Risks Relating to Our Business

If we fail to comply with the covenants under our existing or future financing agreements or obtain consents or waivers in respect of any breach of these covenants, our financial condition, results of operations and business prospects may be materially and adversely affected.

We have not complied with certain of the covenants in our existing financing agreements. In particular, the trust deed relating to our 2012 Guaranteed Notes, or the Trust Deed, includes a covenant that requires us to obtain a written "no rating decline" confirmation from at least one rating agency if the aggregate principal amount of outstanding indebtedness of our restricted subsidiaries exceeds 15.0% of our total assets. Since 2006, the aggregate principal amount of outstanding indebtedness of our restricted subsidiaries exceeded 15.0% of our total assets. Although we have verbally confirmed "no rating decline" with the ratings agencies, we could not receive written confirmation as the rating agencies do not issue written confirmations for this type of request. Since we failed to obtain the written confirmation of "no rating decline," our failure could in certain circumstances, and upon notice by the 2012 Guaranteed Notes trustee, have constituted an event of default and did constitute a potential event of default. The Trust Deed also requires us to deliver an officers' certificate to the 2012 Guaranteed Notes trustee, giving notice of any event of default or potential event of default and to describe the details of such event of default or potential event of default and the actions we propose to take with respect to such events. We did not deliver an officers' certificate to the 2012 Guaranteed Notes trustee in connection with the events described above. Further, the Trust Deed includes a covenant that requires us to deliver an annual officers' certificate on our compliance with the conditions of the 2012 Guaranteed Notes and the Trust Deed. We have not delivered an annual officers' certificate to the 2012 Guaranteed Notes trustee since the issuance of the 2012 Guaranteed Notes in 2005.

Concurrent with this offering of Notes, we have issued an irrevocable notice of redemption in respect of 100% of the aggregate principal amount outstanding of the 2012 Guaranteed Notes, which will be redeemed on June 28, 2011 at a redemption price equal to 100% of the aggregate principal amount plus a "make whole" premium and accrued and unpaid interest.

We cannot assure you that we will be able to comply with the covenants in our existing or future financing agreements, or that upon any breach, we can obtain consents or waivers for any such breach. Any such non-compliance or breach (after any applicable grace periods) could constitute an event of default under our financing agreements, including the Indenture, and may trigger cross default provisions in our other financing agreements. If we are required to repay a significant portion or all of our existing indebtedness prior to their maturity or if we are unable to borrow additional amounts under existing credit facilities, we may lack sufficient financial resources to make these payments or to fund our other cash requirements, which in turn would have a material adverse effect on our financial condition, results of operations and business prospects.

Our performance depends in part on property development and our connection fee income may be adversely affected by fiscal and credit tightening measures introduced by the PRC government.

A substantial proportion of our gross profits in the three years ended December 31, 2008, 2009 and 2010 were derived from gas connection fees, which are fees charged by us to end-users for connecting to our gas pipeline networks. Gas connection fees in the three years ended December 31, 2008, 2009 and 2010 represented 29.3%, 30.4% and 27.2%, respectively, of our total revenue for the year. In addition, revenue generated from gas connection will generally achieve a higher gross margin than revenue generated from gas supply. We normally act as the project manager for the laying of gas pipelines in property development projects and we receive connection fees in stages based on our percentage-of-completion of pipeline construction work. As a large portion of our connection fee income is generated from new residential property development projects, the results of our pipeline connection operation may be affected by the performance of the PRC real estate markets. The timing and cost of the gas pipeline connections will depend on a number of factors, including, but not limited to, the cost and availability of financing to property developers, conditions in the PRC real estate markets and the general economic conditions in China. In recent years the PRC government and PRC fiscal regulatory bodies have imposed various policies designed to limit or restrict the rate of growth of real estate development in the PRC. While we believe that our geographic coverage, with operational locations spread across 15 provinces, municipalities and autonomous regions in China, helps mitigate the risks of adverse property market conditions in individual cities, we cannot assure you that we will not be adversely affected if further property market credit-tightening measures are introduced. See also “Risks Relating to the PRC – PRC economic, political and social conditions could affect our business and prospects.”

In addition, property development projects may be materially and adversely affected by a number of factors, including shortage of equipment or materials, price fluctuations, bad weather, natural disasters, accidents, downturns in the property market, operational conditions and other unforeseeable situations or matters. Should any of these events occur, the completion of the whole or part of the property development project may be postponed and, consequently, the receipt of connection fees may be delayed. We will not be compensated for connection fees not received as a result of any such delay.

Our ability to maintain our current level of profitability depends on our continued success in securing connections to new piped gas customers and other factors which are outside of our control.

In the three years ended December 31, 2008, 2009 and 2010, we achieved a gross margin of 27.2%, 30.2% and 26.9%, respectively, and a net profit margin of 10.5%, 12.8% and 12.5%, respectively. While we believe that our current operations will continue to generate growth and that we are well positioned to secure new projects in other high-growth cities, our continued success is not assured. As a result, we may not be able to sustain our current level of profitability and growth rates. Factors that could adversely affect our business and growth include, but are not limited to: competition from other gas or gas distribution companies in areas that we seek to expand to, particularly those with more capital resources than us, and lack of success in securing and developing new operational locations, as well as increasing penetration rates in existing operational locations; reduction or total elimination of the fees we can charge end-users for gas pipeline connections, whether due to market supply and demand, government regulation or otherwise; changes in the PRC government policy to promote the use of gas; shifts in consumer preferences from piped gas to competing forms of energy; slow down in real estate development; and discontinuation of any government subsidies that we currently enjoy.

We are subject to price controls in certain markets and may not be able to pass-through increased costs to end-customers.

The city-gate price of natural gas is agreed between us and the suppliers with reference to the wellhead price and transportation costs. Wellhead price for fertilizer and residential use are fixed, while prices for industrial use may vary up to 10.0% above the benchmark price set by China’s National Development and Reform Commission, or the NDRC. Wellhead prices have been adjusted in December 2005, November 2007 and June 2010. Most recently, the NDRC announced an onshore wellhead gas price hike of RMB0.23/m^3 effective from June 1, 2010, a 24.9% increase on average. The NDRC also announced the abolishment of the two-tiered pricing system which was created when China last increased gas prices in 2007. The previous two-tiered pricing system meant that wellhead and wholesale price increases would apply to industrial users but not residential and fertilizer users. However, the June 2010 price increase was applicable to both industrial, as well as, residential and fertilizer users. The transportation costs of natural gas are also regulated by the NDRC based on the gas transportation distance and the supplier's pipeline investment and operating costs.

End-user tariffs are determined by local pricing bureaus and any tariffs adjustment affecting residential end-users may be approved only after a hearing. Even if the adjustments sought by us are approved, such approval process and hearing can cause substantial delay and we may not be able to completely and quickly pass-through future increases in natural gas costs to end-users and may face margin pressure if the NDRC makes unfavorable adjustments in gas prices. We cannot assure you that we will continue to have the right to charge pipeline connection fees and gas tariffs in our existing markets at the levels currently enjoyed by us, or that we will be able to charge similar connection fees in new markets. Any reduction in connection fees or gas tariffs will have an adverse impact on our results of operations and financial condition. In addition, we cannot assure you that we will be able to obtain the required approval from the relevant local pricing bureau for an increase in pipeline connection fees or gas tariffs if our costs increase significantly.

In the event that we are unable to obtain approval for passing through any increased input costs in pipeline connection fees or gas tariffs, our profits may be materially and adversely affected.

We are dependent on a limited number of suppliers of natural gas, which may affect our ability to supply natural gas to our customers.

Natural gas, the primary raw material purchased by us, accounted for 42.0%, 57.5% and 72.4% of our total costs of sales for each of the three years ended December 31, 2008, 2009 and 2010, respectively. We currently purchase approximately 97.0% of our natural gas from oil and gas exploration and production companies, pursuant to gas purchase agreements with terms that typically range up to 25 years. While we have entered into take-or-pay or other long-term gas purchase contracts to secure long term natural gas supply for certain of our projects, many of our other projects do not have similar arrangements. Therefore, we cannot assure you that we will be able to continue to purchase natural gas from suppliers on similar terms or on terms otherwise acceptable to us, in which case our business and profitability may be materially and adversely affected. In addition, we cannot assure you that unforeseen events will not prevent the timely delivery of, or affect the quality of, natural gas supplied by our suppliers. We obtain natural gas directly from suppliers via pipelines. In the event of an unforeseen disruption to natural gas pipeline supplies, whether due to accidents, commercial reasons, technical difficulties, natural disasters, war or terrorism, we may be unable to obtain an immediately available supply of natural gas for our piped gas customers. If the required natural gas cannot be purchased as scheduled or on terms acceptable to us, our business, financial condition and results of operations may be adversely affected. In order to satisfy customer demand, over time, we may increase our reliance on imported natural gas. According to the PRC Government 12th Five-Year Plan, China is expected to increase its natural gas imports in the next few years as domestic production lags behind consumption growth. At current prevailing market prices, natural gas imports are more expensive than domestically sourced natural gas. We cannot assure you that imported natural gas can be procured on terms and prices similar to domestically sourced natural gas. Should the price differential between imported natural gas and domestically sourced natural gas remain or increase, an increasing reliance on imported natural gas by us will increase our average costs of natural gas and our costs of sales. If we are unable to pass on these higher costs of sales to our customers by charging higher prices, our margin and profitability would be adversely affected.

We may be subject to risks of potential shortfall on committed take-or-pay volume if the Company fails to increase the number of connected residential households and C/I customers in the operational locations which are subject to take-or-pay obligations.

We have entered into take-or-pay contracts with, among others, China National Petroleum Corporation, or PetroChina, China Petroleum and Chemical Corporation, or Sinopec, and China National Offshore Oil Corporation, or CNOOC, or their distributors, for gas supplied through the West-East Pipeline, the Zhong-Wu Pipelines, and the Chang-Zi Pipelines and other pipelines. In order to fully utilize our committed volume, we will need to increase the number of connected residential households and C/I customers in our operational locations that are subject to take-or-pay obligations and their usage volume in the next few years. We may be subject to risks of potential shortfall on committed take-or-pay volume and may suffer losses if we fail to generate sufficient demand. See "Business – Purchases – Gas."

If we are unable to fund our substantial capital expenditure requirements on terms we deem acceptable, it may adversely affect our prospects and future operations.

Our construction projects generally comprise the construction of natural gas pipeline networks, natural gas refueling stations for gas-powered vehicles and LNG factories. The construction of natural gas pipelines mainly involves laying underground gas pipelines and ancillary gas pipelines that provide the connections to residential households and commercial and industrial, or C/I, customers. In particular, for some major natural gas pipeline network development projects, construction also involves the construction of processing stations and high pressure transmission gas pipelines. The construction of natural gas refueling stations also involves laying underground gas pipelines, constructing the refueling stations and ancillary facilities. The construction of various natural gas pipeline infrastructures requires substantial initial investment which must be financed by internal resources, bank loans and/or equity fund raising. We cannot assure you that we will be able to secure financing from the abovementioned sources to fund the capital expenditure required for developing new natural gas pipeline networks, new natural gas refueling stations or LNG factories in the future. In the event that we are unable to obtain adequate financing, our ability to expand our natural gas network may be hindered and the prospects of our future operations may be adversely affected.

As of December 31, 2008, 2009 and 2010, we had substantial net current liabilities of RMB1,074.3 million, RMB610.2 million and RMB2,409.8 million, respectively. These net current liability positions primarily reflect capital investments to expand the scale of our operations and distribution capability, including acquisitions of projects and the construction of fixed assets. Having considered the credit facilities available to us from banks, our directors are satisfied that we will be able to meet in full our financial obligations as they fall due for the foreseeable future, and accordingly, our consolidated financial statements have been prepared on a going concern basis. We may continue to have substantial net current liabilities in the future, and our business operations and our ability to raise funding may be materially and adversely affected by our substantial amount of net current liabilities. Moreover, our cash flow position depends not only on market conditions and customer demands, but also on a number of political, economic, legal and other factors, some of which are beyond our control. We cannot assure you that we will maintain sufficient revenue or be able to raise necessary funding to pay off our current liabilities and meet our capital commitments. In such circumstances, our business, financial condition and results of operations may be materially and adversely affected.

Our financial information for fiscal year 2008 has not been restated to reflect a change in accounting policy and adoption of certain new and revised standards and therefore certain line items are not directly comparable to our financial information for fiscal years 2009, as restated, and 2010.

The consolidated financial information for the year ended December 31, 2009 presented in this offering memorandum (including information related to property, plant and equipment, prepaid lease payments, deferred tax liabilities, reserves, cost of sales, profit attributable to non-controlling interests and profit attributable to the owner of the Company) has been restated to account for a change in accounting policy to state our land and buildings at cost, less any accumulated depreciation and accumulated impairment losses and adoption of amendment to HKAS 17. However, the consolidated financial information for the year ended December 31, 2008 presented in this offering memorandum has not been restated to reflect the adoption of this new accounting policy and adoption of amendment to HKAS 17. Therefore, certain line items in the unrestated financial information as of and for the year ended December 31, 2008 are not directly comparable to the financial information as of and for the year ended December 31, 2009, as restated, and the year ended December 31, 2010. Accordingly, the comparative information, discussion and analysis of the unrestated financial information for fiscal year 2008 against the financial information for fiscal year 2009, as restated, may not be directly comparable, and you are cautioned not to place on undue reliance on such information, discussion or analysis. If the consolidated financial information for fiscal year 2008 were to be restated, the restatement would, among other things, cause our gross profit, profit before tax and profit and total comprehensive income for 2008 to increase slightly. For a summary of the impact of this change in accounting policy and the adoption of amendment to HKAS 17, please refer to notes 3 and 4 of our consolidated financial statements as of and for the year ended December 31, 2010. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – Change in Accounting Policy and Adoption of New and Revised Standards."

The economic benefits arising from the expansion of our natural gas pipeline networks depend on the economic development of the areas in which the projects are located.

As our income is mainly derived from (i) the sale of piped gas to residential, commercial, industrial and vehicle customers from whom we collect fees based on the volume of gas consumed, and (ii) gas connection fees collected from customers connecting to our natural gas pipeline network for their supply of natural gas, the success of our projects depends on the economic development of the areas in which the projects are based. Although we typically undertake feasibility studies to assess the future economic benefit of a project, we cannot assure you that an operational location will develop or prosper economically. Given the substantial capital investment at the early stages of each project, any unexpected adverse changes in the economic growth of an operational location or any substantial deviation from our expectations in terms of both the number of new customers and the volume of their future natural gas consumption, could lengthen the payback period of our investment and may adversely affect our liquidity and financial condition.

Failure to attract and retain qualified personnel and experienced senior management could disrupt our operations and adversely affect our business and competitiveness.

To a significant extent, our success is built upon the technical expertise and in-depth knowledge of the piped gas supply industry possessed by the executive directors and certain other key technical and management personnel. Our future growth and success will depend to a large extent on our ability to retain or recruit qualified individuals to strengthen our management, operational and research teams. Due to the intense market competition for highly skilled workers and experienced senior management, we may face difficulties locating experienced and skilled personnel in certain areas, such as engineering, marketing, product development, sales, finance and accounting. Accordingly, if any of our executive directors or key technical and management personnel ceases to be involved in our operations, or if any of them fails to observe and perform their obligations under their respective service agreements, the implementation of our business strategies may be affected, which could lead to a material adverse impact on our operations.

The expansion of our business into new cities or countries may not be as successful or profitable as in the provinces in which we currently operate.

We plan to expand our business into additional cities throughout China. Recently, we also announced a joint venture with the Vietnam Oil and Gas Group to develop our piped gas and vehicle gas refueling station business in Vietnam. Our experience in the cities in which we currently have operations, however, may not be applicable in other parts of China or abroad. We cannot assure you that we will be able to leverage such experience to expand into new markets. When we enter new markets, we may face intense competition from natural gas operators with established experience or presence in the geographical areas in which we plan to expand and from other natural gas operators with similar expansion targets. In addition, expansion or acquisition may require a significant amount of capital investment, which could divert the resources and time of our management and, if we fail to integrate the new locations effectively, it will affect our operating efficiency. Demand for natural gas, environmental standards and government regulation and support may also be different in other provinces or nations. For example, the distribution of natural gas and operations of fueling stations are highly regulated industries requiring registration for the issuance of licenses required by various governing authorities in China. Additionally, various standards must be met for fueling stations, including handling and storage of natural gas, tanker handling and compressor operation. Our failure to manage any of our planned expansion, strategic alliance or acquisitions may have a material adverse effect on our business, financial condition and results of operations and we may not have the same degree of success in other provinces or countries that we have had so far to date, or at all. In addition, although we intend to expand our operations in China and internationally, we cannot assure you that we will be successful in soliciting new projects in the future through either auction or private negotiation.

We may not be able to integrate acquired state-owned or other gas businesses successfully.

Our business model includes acquiring restructured SOEs, and other gas businesses, particularly in the piped gas business. PRC SOEs have traditionally been managed with the goal of serving state policy, providing for the well-being of citizens and for lifetime employment. Accordingly, there are significant risks in the conversion of any former SOEs into a profitable private enterprise. Our management spends a significant amount of time and attention on the integration process for each acquisition, including, but not limited to, negotiating the terms of the initial restructuring, training and appointing management of the restructured business, providing know-how and business support, and creating new incentive structures for management and staff. We cannot assure you, however, that such measures will be effective in successfully integrating the acquired enterprise into our existing operations or creating profitable businesses. Delays in integration or unresolved corporate culture and labor issues may divert our management's attention and resources from other uses, which may adversely affect our business, financial condition and results of operations.

We have not received land use right certificates and/or building ownership certificates for certain of our properties in China.

We currently do not hold land use right certificates and/or building ownership certificates in respect of several of our plants or land in China. We are in the process of applying for such building ownership certificates and land use right certificates. As of December 31, 2010, the total net book value of the land without land use right certificates and/or plants without building ownership certificates was approximately RMB284.8 million, representing approximately 17.3% of the net book value of our land and buildings and prepaid lease payments of approximately RMB1,645.0 million. We will not be able to transfer our interest in the land or the building for such land and/or buildings until we have obtained any land use right certificates and/or building ownership certificates.

Moreover, we entered into a number of long-term lease agreements with third parties to lease certain land upon which our CNG or LNG vehicle refueling stations operate. Some of the entities from which we leased land may not possess valid title to their properties. In addition, we have leased land from individual villagers or village committees and applicable PRC law may be interpreted as prohibiting such land to be used for non-agricultural purposes or from being leased to parties other than local residents or their collective economic organizations. If there are disputes over the legal title to any of these leased properties or if the relevant authorities determine that our use of such properties violates PRC law and our leases are deemed to be invalid, we may be required to vacate such sites, which could disrupt our business operations in that location and may adversely effect on our business, financial condition and results of operations may be adversely affected.

The interests of our controlling shareholders may differ from those of our Company.

As of December 31, 2010, Mr. Wang Yusuo, or Mr. Wang, the Chairman of the Company, his spouse, Ms. Zhao Baoju ("Ms. Zhao"), a non-executive director of the Company, together owned approximately 31.2% of the issued share capital of our Company (as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance). Accordingly, the Wang family has, and will continue to have, the ability to exercise significant influence over our business and may cause us to take actions that are not in, or may conflict with, our interests and/or the interests of some or all of our creditors or minority shareholders. We cannot assure you that such actions will not have an adverse effect on us or the holders of the Notes.

We conduct our business through PRC operating subsidiaries and joint venture partners, some of which we do not control, and these business partners' interests may not align with ours.

We currently conduct our business operations primarily through operating subsidiaries established in China, a substantial portion of which are not wholly-owned. Although we have control over the management of these operating subsidiaries, certain important corporate actions for many subsidiaries typically require supermajority or unanimous board or shareholder approval. Such corporate actions generally include amending the articles of association, terminating the joint ventures or winding up the subsidiaries, merging, increasing the registered share capital, transferring equity interests or pledging of assets. We cannot assure you that our subsidiaries will not engage in certain of these corporate actions in the future or that, if they do, that they will be able to cause our PRC partners to consent to such actions. In addition, there is a possibility that the PRC partners of these operating subsidiaries may have economic or business interests or goals which are inconsistent with our own, are unable or unwilling to fulfill their obligations under the relevant joint venture or shareholders' agreements, or have financial difficulties.

With respect to two Sino-foreign equity joint ventures, we also rely on shareholding entrustment agreements which may not be as effective in providing operational control as direct or indirect ownership. As these shareholding entrustment agreements have not been submitted or approved by authorities in China, there is also a risk that the relevant PRC authorities may consider these shareholding entrustment agreements to be invalid or unenforceable. In April 2010, we also acquired our first international pilot project in Vietnam through a joint venture with The Vietnam Oil and Gas Group, or PetroVietnam, to develop piped gas and vehicle gas refueling businesses. We cannot assure you that our Vietnam partners will not have economic or business interests or goals which are inconsistent with our own, or will be able or willing to fulfill their obligations under the relevant joint venture or shareholders' agreements, or have financial difficulties.

Any such events, particularly if they cannot be remedied due to our inability to cause the termination of the joint venture or other significant corporate actions, may have an adverse affect on our business, financial condition or results of operations.

Risks Relating to the PRC Natural Gas Industry

Natural gas operations entail inherent safety and environmental risks that may result in substantial liability to us.

Natural gas operations entail inherent risks, including equipment defects, malfunctions and failures, human error, accidents, and natural disasters, which could result in uncontrollable flows of natural gas, fires, explosions, property damage, damage to the environment, injury and death. CNG and LNG fuel tanks, if damaged or improperly maintained, may rupture and the contents of the tank may rapidly decompress and result in death or injury. Also, operation of LNG pumps requires special training and protective equipment because of the extremely low temperatures of LNG. Improper loading of LNG vehicles can result in venting of methane gas, leading to explosions.

The location of pipelines near populated areas, including residential areas, commercial business centers, industrial sites and other public gathering places, could increase the level of damage resulting from these risks, including the loss of human life, significant damage to property, environmental damage, impairment of our operations and substantial loss to us. We may incur substantial liability and cost if damages are not covered by insurance or are in excess of policy limits.

We have limited insurance coverage and may incur losses due to business interruptions resulting from natural or man-made disasters, and our insurance may not be adequate to cover liabilities resulting from accidents or injuries that may occur.

Due to the nature of our business, we often handle highly flammable and explosive materials. There is a significant risk that industry-related accidents will occur in the course of our business. While we have implemented safety precautions and maintenance procedures throughout our businesses, we cannot assure you that accidents will not occur during future operations. Any significant accident, whether or not we are found to be at fault, may adversely affect our business, financial condition and results of operations. Although the insurance industry in China is still at an early stage of development, we have obtained insurance for certain fixed assets (including the pipelines we own) that we consider to be subject to significant operating risks. We have also taken out third-party liability insurance policies covering (i) the loss of life or property of third parties arising out of any accident that may occur at our natural gas processing stations, and (ii) the injury or loss of life of staff arising out of our business operations. We have not, however, taken out an insurance policy for any interruption of our business. Should any natural catastrophes such as earthquakes, floods, or any acts of terrorism occur, we may suffer significant property damage and loss of revenue due to interruptions in our business operations. We cannot assure you that our insurance policies will adequately compensate for losses or damages under any and all potential adverse circumstances. A material and successful claim made against us that is not covered by any of our insurance policies or is in excess of our insurance coverage could have an adverse effect on our business and financial position.

Our growth depends in part on environmental regulations and programs promoting the use of cleaner burning fuels and modification or repeal of these regulations may adversely impact our business.

Our business is subject to certain PRC laws and regulations relating to the production, storage, transportation and sale of natural gas and other energy sources, as well as environmental and safety matters. The discharge of natural gas or other pollutants into the environment may give rise to liabilities or may require us to incur significant costs to remedy such discharge. In addition, we cannot assure you any environmental laws adopted in the future will not materially increase our cost of conducting business.

In addition, our business depends in part on environmental regulations and programs in China that promote the use of cleaner burning fuels, including natural gas, for vehicles. In particular, China's 11th Five-Year Plan (2006-2010) made the development of natural gas engines for heavy-load trucks a national key development project. In 2007, China's NDRC officially included CNG/gasoline hybrid vehicles in the country's "encouraged development" category. In addition, many local governments have enacted policies providing subsidies to taxis and buses which convert their gasoline vehicles to CNG/gasoline hybrid vehicles. In May 2010, the PRC government issued the Opinions of State Council on Encouraging and Guiding Healthy Development of Private Investment encouraging private investments in exploration of upstream oil and natural gas resources and development of related facilities. Moreover, according to the PRC's 12th Five-year Plan (2011-2015), the PRC government intends to enhance the supply of natural gas, the development of energy pipeline network and energy saving and emission reduction. According to BP Statistical Review of World Energy June 2010, the proportion of natural gas in China's total energy consumption is 3.7%. In connection with the 12th Five-year Plan, the PRC government targets to increase the proportion of natural gas in China's total energy consumption to 8.3% by 2015. The PRC government will implement additional regulations and programs encouraging the use of natural gas. Any delay in implementation of these regulations or programs could have a detrimental effect on the continued development of the PRC natural gas industry, which, in turn, could adversely affect our business plans.

Our competitors and potential competitors may be larger than us and have greater financial and other resources than we do and those advantages could make it difficult for us to compete with them.

We face competition in acquiring new piped gas projects in China from other domestic or foreign piped gas providers. We also expect to face competition in both the CNG and LNG vehicle refueling station industries. As of December 31, 2008, 2009 and 2010, vehicle refueling stations represented 8.0%, 9.5% and 10.8% of our total revenue. Unlike the piped natural gas business, local governments in China typically do not grant exclusive rights or rights of first refusal to a selected company to operate in a location. We typically obtain land for the construction of vehicle refueling stations through a competitive bidding process. As a result, we may have to pay more than fair market value to obtain the right to build our vehicle refueling stations at an ideal location. Due to the competitive nature of the process, we may not be able to build our vehicle refueling stations at an ideal location, which can reduce vehicle traffic and adversely impact our vehicle refueling station sales.

Our current, and potential, competitors include companies that are part of much larger companies, including SOEs, affiliates of PRC national oil and gas companies and domestic and regional gas distributors. In our CNG and LNG vehicle refueling station businesses, we also face competition from distributors of other alternative fuels and technologies used in hybrid or electric vehicles. These companies may have greater resources than we do, including a longer operating history, a larger customer base, stronger government and customer relationships and greater financial, technical, marketing, relationship and other resources. These competitors may also have greater economies of scale, operating efficiencies and significant government support. Such competition could result in loss of market share and affect the growth of the business. If we are unable to remain competitive, we may not be able to acquire new piped gas projects, establish our LNG vehicle refueling station business or expand our CNG vehicle refueling station business into new localities.

The applications of natural gas continue to be much less developed than that of coal, gasoline and diesel.

Coal, gasoline and diesel fueling stations and service infrastructure are widely available in China. For natural gas vehicle and industrial fuels to achieve more widespread use in China, they will require a promotional and educational effort and the development and supply of more natural gas vehicles and fueling stations. This will require significant continued effort by us as well as the PRC government, and we may face competition from oil companies, coal companies and gasoline station operators. We cannot assure you that natural gas will ever achieve the level of acceptance as a vehicle and industrial fuel necessary for us to expand this portion of our business significantly.

If there are advances in alternative vehicle and industrial fuels or technologies, or if there are improvements in gasoline, diesel or hybrid engines, demand for natural gas vehicle and industrial fuels may decline and our vehicle refueling station business may suffer.

Technological advances in the production, delivery and use of alternative fuels that are, or are perceived to be, cleaner, more cost-effective or more readily available than CNG or LNG have the potential to slow the adoption of natural gas vehicles and industrial facilities. In addition, advances in gasoline and diesel engine technology, especially hybrids, may offer a cleaner, more cost-effective option and make vehicle customers less likely to convert their vehicles to natural gas. Technological advances related to ethanol or biodiesel, which are increasingly used as an additive to, or substitute for, gasoline and diesel fuel, may slow the need to diversify fuels and affect the growth of the natural gas vehicle market. In addition, hydrogen and other alternative fuels in experimental or developmental stages may eventually offer a cleaner, more cost-effective alternative to gasoline and diesel than natural gas. Advances in technology that slow the growth of or conversion to natural gas vehicles or industrial facilities or which otherwise reduce demand for natural gas as a vehicle or industrial fuel may have an adverse effect on our business.

If the price of CNG does not remain sufficiently below the price of gasoline and diesel, potential customers will have less incentive to purchase natural gas vehicles or convert their vehicles to natural gas, which would decrease demand for CNG and limit our growth.

Our revenue from CNG vehicle refueling stations comes primarily from the sale of CNG as a fuel for natural gas vehicles and we expect this trend will continue. To expand our business, we must continue to develop new customers. Our ability to expand our customer base is dependent on a number of factors, including the level of acceptance and availability of natural gas vehicles, the level of acceptance of natural gas as a vehicle fuel, the growth in our target markets of natural gas infrastructure that supports CNG sales and our ability to supply CNG at competitive prices. Natural gas vehicles cost more than comparable gasoline or diesel powered vehicles because converting a vehicle to use natural gas adds to its base cost.

Moreover, if the price of CNG does not remain sufficiently below the price of gasoline or diesel, vehicle owners may be unable to recover the additional costs of acquiring or converting to natural gas vehicles in a timely manner, and they may choose not to use natural gas vehicles. In June 2010, the NDRC, determined that natural gas for vehicle use should be priced no lower than 75% of the price of gasoline. As this is much higher than the current price for natural gas for vehicle use, the NDRC set the current floor price for natural gas price at 60% of the price of gasoline. The floor price will be gradually adjusted to 75% of the price of gasoline over a two-year period. The NDRC's policy will cause the price of natural gas for vehicle use to rise and erode its price advantage over competing fuel sources. In addition, recent and extreme volatility in oil and gasoline prices demonstrate that it is difficult to predict future transportation fuel costs. Any decline in the price of oil, diesel fuel and gasoline will reduce the economic advantages that our existing or potential customers may realize by using less expensive CNG fuel as an alternative to gasoline or diesel. Reduced prices for gasoline and diesel fuel and continuing uncertainty about fuel prices, combined with higher costs for natural gas vehicles, may cause potential customers to delay or decline to convert their vehicles to run on natural gas, which may limit our growth and cause our business to suffer.

We may be adversely affected by a slowdown of China's economy or in the financial services and credit markets.

We rely on demand for natural gas in China for our revenue growth, which is substantially affected by the growth of the industrial base, increases or decreases in residential and vehicle consumption of natural gas and the overall economic growth of China. The growth of China's economy experienced a slowdown in late 2007. We believe a number of factors contributed to this slowdown, including appreciation of the Renminbi against the U.S. dollar and the Euro, which has adversely affected China's exports. The slowdown was further exacerbated by the global crisis in the financial services and credit markets, which resulted in extreme volatility and dislocation of the global capital markets.

The global economy had begun to recover in 2010, however, the pace of the recovery remained slow. It is uncertain how long the effects of the global crisis in the financial services and credit markets will continue and the impact this will have on the global economy in general and the economy of China in particular. We are currently unable to estimate the impact the slowing of the PRC economy will have on our business as the impact of the decline in international trade is being offset in part through domestic stimulus spending, expanded bank lending, increases in the speed of regulatory approvals of new construction projects and other economic policies. We do not believe we have experienced reduced overall demand for natural gas to date. If the economic recovery fails to continue or recessionary economic environment shall return, our business may be negatively affected by any decrease in demand for our natural gas products and services. Reduction in demand for natural gas would have a material and adverse effect on our financial condition and results of operations.

Risks Relating to the PRC

PRC government regulations may limit our activities and adversely affect our business operations.

Our operations, like those of other PRC oil and gas companies, are subject to extensive regulation by the PRC government. In China gas companies operating piped gas distribution businesses in urban areas are under the supervision of a number of government ministries and departments, including the Ministry of Construction, the Ministry of Labor and Social Security and the Ministry of Public Security. We must comply with the relevant requirements of certain regulations, including, but not limited to, the City Fuel Gas Administration Regulations, the Tentative Regulations in relation to the Supervision and Administration of the Safety of Petroleum and Natural Gas Pipelines and the Regulations of the Safety of City Fuel Gas Administration. Central governmental authorities, such as the NDRC, the Ministry of Finance, the Ministry of Land and Resources, the Ministry of Commerce and the State Bureau of Taxation and the local pricing bureaus, exercise extensive control over various aspects of the PRC's oil and gas industry. This control affects aspects of our operations such as the pricing of our main products and services, industry-specific taxes and fees, business qualifications, capital investments, and environmental and safety standards. As a result, we may face significant constraints on our ability to implement our business strategies, to develop or expand our business operations or to maximize our profitability. Our business may also be adversely affected by future changes in policies of the PRC government in respect of the oil and gas industry as well as changes in policies of local governments in relation to our various areas of business.

PRC economic, political and social conditions, as well as government policies, could affect our business and prospects.

The PRC economy differs from the economies of most of the developed countries in many respects, including:

- the amount and degree of government involvement;
- growth rate and degree of development;
- content of and control over capital investment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy is in the process of transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. We cannot predict whether changes in PRC economic, political or social conditions and in PRC laws, regulations and policies will have an adverse effect on our current or future business, financial condition or results of operations.

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development.

Our business, financial condition and results of operations may be adversely affected by:

- changes in PRC political, economic and social conditions;

- changes in policies of the PRC government, including changes in policies affecting the natural gas industry;

- changes in laws and regulations or the interpretation of laws and regulations;

- measures that may be introduced to control inflation or deflation;

- changes in the rate or method of taxation;

- imposition of additional restrictions on currency conversion and remittances abroad; and

- reduction in tariff protection and other import restrictions.

Furthermore, the growth of demand in China for natural gas depends heavily on economic growth. We cannot assure you that such growth will be sustained in the future. Since early 2004 and from time to time, the PRC government has implemented certain measures in order to prevent the PRC economy from experiencing excessive inflation. Such governmental measures may cause a decrease in the level of economic activity, including demand for natural gas, and have an adverse impact on economic growth in China. If China's economic growth slows down or if the Chinese economy experiences a recession, the growth of demand for natural gas may also slow down or stop. Such events could have a material adverse effect on our business, results of operations and financial condition.

Changes in government control of currency conversion and in PRC foreign exchange regulations may adversely affect our business operations.

The PRC government imposes controls on the convertibility between Renminbi and foreign currencies and the remittance of foreign exchange out of China. We receive substantially all our revenue in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Our PRC subsidiaries must convert their Renminbi earnings into foreign currency before they may pay cash dividends to us or service their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current-account items may be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements.

Approval from appropriate governmental authorities, however, is required when Renminbi is converted into foreign currencies and remitted out of China for capital-account transactions, such as the repatriation of equity investment in China and the repayment of the principal of loans or debt denominated in foreign currencies. Such restrictions on foreign exchange transactions under capital accounts also affect our ability to finance our PRC subsidiaries. Subsequent to this offering, we have the choice, as permitted by the PRC foreign investment regulations, to invest our net proceeds from this offering in the form of registered capital or a shareholder loan into our PRC subsidiaries to finance our operations in China. Our choice of investment is affected by the relevant PRC regulations with respect to capital-account and current-account foreign exchange transactions in China. In addition, our transfer of funds to our subsidiaries in China is subject to approval by PRC governmental authorities in the case of an increase in registered capital, and subject to approval by and registration with PRC governmental authorities in case of shareholder loans to the extent that the existing foreign investment approvals received by our PRC subsidiaries permit any such shareholder loans at all. These limitations on the flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions.

Fluctuations in the value of Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries.

The Notes are denominated in U.S. dollars, while substantially all of our revenue is generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime to increase the Chinese currency's exchange rate flexibility on June 19, 2010. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 26.7% from July 21, 2005 to April 19, 2011. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our significant U.S. dollar denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any hedging transaction to reduce our exposure to such risks.

Dividends from our PRC subsidiaries may be subject to withholding tax under PRC tax laws and we may be deemed a "resident enterprise" under the New Tax Law.

The People's Republic of China New Enterprise Income Tax Law or, or the New Tax Law, which took effect on January 1, 2008, imposes a unified income tax rate of 25% on all domestic and foreign-invested enterprises unless they qualify under certain limited exceptions. According to the New Tax Law, enterprises that were previously subject to an enterprise income tax rate lower than 25% have continued to enjoy the lower rate and are gradually transitioning to the new tax rate within five years after January 1, 2008.

We are a holding company that is financially dependent on distributions from our subsidiaries and our business operations are principally conducted through our PRC subsidiaries. Prior to December 31, 2007, dividend payments to foreign investors made by foreign-invested enterprises, such as dividends paid to us by our PRC subsidiaries, were exempt from PRC withholding tax. The New Tax Law, which became effective January 1, 2008, provides that any dividend payment to foreign investors will be subject to a withholding tax at a rate of 10%. Pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006, a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in that particular PRC subsidiary at the time of the distribution, subject to approval by the relevant tax authority, or 10% if it holds less than a 25% interest in that subsidiary. However, according to a Circular of the PRC State Administration of Taxation dated October 27, 2009, or Circular 601, tax treaty benefits will be denied to "conduit" or shell companies without substantive business activities in the jurisdictions of their incorporation which have a tax treaty with the PRC providing for a reduced rate of withholding tax. Therefore, we cannot assure you that dividend payments made by our PRC subsidiaries to our Hong Kong subsidiaries, which hold the equity interests in some of our PRC subsidiaries, will continue to enjoy the 5% PRC tax rate.

In addition, under the New Tax Law, enterprises established under the laws of jurisdictions outside China with their "de facto management bodies" located within China (among other criteria) may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The New Tax Law provides that "de facto management body" of an enterprise is the organization that exercises substantial and overall management and control over the production, employees, books of accounts and properties of the enterprise. If we are considered a PRC resident enterprise by the relevant tax authority in China, we would be subject to PRC enterprise income tax at the rate of 25% on our worldwide income. We may however, claim foreign tax credit for certain foreign tax paid and use such credit to offset the PRC enterprise income tax liability. If our PRC subsidiaries are subject to the withholding tax at a normal rate of 10% or we or any of our non-PRC subsidiaries are deemed a PRC resident enterprise under the New Tax Law, our profitability and cash flow would be materially and adversely affected. In April 2009, the PRC State Administration of Taxation issued the Notice on Issues Relating to Determination of Chinese-Controlled Offshore Enterprises as PRC Resident Enterprises by Applying the "De Facto Management Body" Test (國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知), or Circular 82. Circular 82 provides certain specific criteria for determining whether the "de facto management body" of a PRC-controlled offshore enterprise is located in China. Circular 82 does not, however, apply to us directly because we are currently not a PRC company-controlled offshore enterprise. Although it is unclear under PRC tax law whether we have a "de facto management body" located in China for PRC tax purposes, we cannot assure you that we will not be deemed a PRC resident enterprise, specifically in the event that new rules and interpretations are issued under which we could be deemed a PRC resident enterprise. We currently intend to take the position that we are not a PRC resident enterprise, but we cannot assure you that PRC tax authorities will accept our position.

Additionally, even if we or our overseas subsidiaries are deemed non-resident enterprises under the New Tax Law, if our Hong Kong subsidiary directly transfers its equity interest in our PRC entities, we would be subject to PRC enterprise income tax at the rate of 10% on gains derived from such transfer, and, under the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (關於加強非居民企業股權轉讓所得企業所得稅管理的通知), or Circular 698, issued by the State Administration of Taxation in December 2009, if we or any of our overseas subsidiaries indirectly transfer an equity interest in any of our PRC subsidiaries at the overseas holding company level, we may be subject to review by the relevant tax authorities and our capital gains on the transfer may be subject to PRC enterprise income tax at the rate of 10%.

Our results of operations would be materially and adversely affected if connection fees become subject to VAT assessments in the future and we are unable to pass such increased costs onto end users.

Our connection fees are currently only subject to a 3% business tax, whereas our gas revenue is subject to a 13% value-added tax, or VAT. On January 15, 2003, the Ministry of Finance and the State Administration of Taxation of the PRC issued the "Notice regarding Business Tax and Certain Policies Issues", which suggested that connection fees may also become subject to the 13% VAT in future. The levy of VAT on our connection fees could materially and adversely affect our results of operation in view of the material contribution to our revenue and profits by connection fees in the event that we are unable to pass the increased costs onto end users. Our project companies have received informal communications from their respective local governments that VAT would not be levied on connection fees. We cannot assure you, however, that VAT will not be levied on our pipeline construction business in the future.

The increase in the PRC enterprise income tax and the discontinuation of the preferential tax treatments available to us could decrease our net income and materially and adversely affect our financial condition and results of operations.

Our PRC subsidiaries are incorporated in the China and are governed by applicable PRC income tax laws and regulations. Prior to January 1, 2008, entities established in China were generally subject to a 30% state and 3% local enterprise income tax rate. Various preferential tax treatments promulgated by national tax authorities were available to foreign-invested enterprises.

Under the New Tax Law, and its implementation rules, both effective on January 1, 2008, the PRC has adopted a uniform enterprise income tax rate of 25% for all PRC enterprises (including foreign-invested enterprises) and revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, the New Tax Law also permits enterprises to continue to enjoy their existing tax incentives, adjusted by certain transitional phase-out rules, under which enterprises established before the promulgation date of the New Tax Law that were granted tax holidays under the then effective tax laws or regulations may continue to enjoy their tax holidays until their expiration.

Preferential tax treatments granted to us by PRC government authorities are subject to review and may be adjusted or revoked at any time in the future. The discontinuation of any preferential tax treatments available to us will cause our effective tax rate to increase, which will decrease our net income and materially and adversely affect our financial condition and results of operations.

Interest payable by us to our foreign investors and gains on the sale of our Notes may be subject to taxes under PRC tax laws.

Under the New Tax Law, if we were deemed to be a PRC resident enterprise, the interest payable on the Notes will be considered to be sourced within China. In that case, PRC income tax at the rate of 10% will be withheld from interest and certain other amounts payable on the Notes to investors that are "non-resident enterprises" so long as such "non-resident enterprise" investors do not have an establishment or place of business in China or, if despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Any gain realized on the transfer of the Notes by such investors may be subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China. However, we would be obligated to withhold PRC income tax of up to 7% on payments of interest and certain other amounts payable on the Notes to investors that are non-resident enterprises located in Hong Kong according to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排). It is uncertain whether we will be considered a PRC "resident enterprise," and whether the interest payable to our foreign investors, or the gain our foreign investors may realize from the transfer of our Notes, would be treated as income sourced within China and be subject to PRC tax. We currently do not intend to withhold taxes from interest payments, but we cannot assure you that the PRC income tax authorities will accept our withholding position. If we are considered a PRC resident enterprise, any interest we pay with respect to the Notes, or any gain you may realize from the transfer of the Notes will be considered income derived from sources within the PRC and be subject to PRC tax. If we are required under the New Tax Law to withhold PRC income tax on interest payable to our non-PRC investors that are "non-resident enterprises," or if you are required to pay PRC income tax on the transfer of the Notes, the value of your investment in the Notes may be materially and adversely affected. Prospective holders should consult their tax advisors as to whether they may be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas if we are considered a PRC "resident enterprise."

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may adversely affect our business operations.

In October 2005, the SAFE issued the Notice Regarding Certain Administrative Measures on Financing and Round-trip Investment by PRC Residents through Offshore Special Purpose Vehicles (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), which became effective on November 1, 2005. The notice requires PRC residents, including both legal and natural persons, to register with the local SAFE branch before establishing or controlling any company outside of China (an "offshore special purpose company") for the purpose of acquiring any assets of or equity interest in a PRC company and raising funds offshore. In addition, any PRC resident who is the shareholder of an offshore special purpose company is required to update its SAFE registration with the local SAFE branch with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in China. Failure to comply with the required SAFE registration and updating requirements described above may result in restrictions being imposed on the foreign exchange activities of the PRC subsidiaries of that offshore special purpose company, including the increase in registered capital, the payment of dividends and other distributions or payments to the offshore special purpose company and capital inflows from the offshore entity. Failure to comply may also subject relevant PRC residents or the PRC subsidiaries of that offshore special purpose company to penalties under PRC foreign exchange administration regulations for evasion of applicable foreign exchange restrictions.

If the SAFE promulgates clarifications or regulations in the future requiring our beneficial owners who are Hong Kong permanent residents to comply with the registration procedures and update requirements described above and if our beneficial owners are unable or fail to comply with such procedures, our beneficial owners may be subject to fines and legal sanctions, the consequence of which may affect our business operations, particularly with respect to the ability of our PRC subsidiaries to remit foreign currency payments out of China, which could affect our ability to service our offshore indebtedness, including the Notes and our 2012 Guaranteed Notes.

Interpretation of PRC laws and regulations involves uncertainty and the current legal environment in China could limit the legal protections available to you.

Our core business is conducted in China and is governed by PRC laws and regulations. Our principal operating subsidiaries are located in China and are subject to the PRC laws and regulations. The PRC legal system is a civil law system based on written statutes and prior court decisions have limited precedential value and can only be used as a reference. Additionally, PRC written laws are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to the natural gas industry. Because these laws and regulations have not been fully developed, however, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty and the legal protection available to you may be limited. Depending on the governmental agency or the presentation of an application or case to such agency, we may receive less favorable interpretations of laws and regulations than our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. These uncertainties may impede our ability to enforce the contracts we have entered into. Furthermore, such uncertainties, including the potential inability to enforce our contracts, together with any development or interpretation of PRC laws that is adverse to us, may materially and adversely affect our business, financial condition and results of operations.

The national and regional economies in China and our prospects may be adversely affected by natural disasters, acts of God and the occurrence of epidemics.

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including the municipalities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. An occurrence or recurrence of any of these or other epidemics in areas where we operate may result in material disruptions to our business operations, write-downs of capital expenditures and our sales and marketing, which in turn could adversely affect our business, results of operations and financial condition.

We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the PRC economy, the PRC natural gas industry and the selected PRC regional data contained in this offering memorandum.

Facts, forecasts and other statistics in this offering memorandum relating to China, the PRC economy, the PRC natural gas industry and the selected PRC regional data have been derived from various official or other publications available in China and may not be consistent with other information compiled within or outside of China. We cannot guarantee, however, the quality or reliability of such source materials. The materials have not been prepared or independently verified by us, the Initial Purchasers or any of our or their affiliates or advisors (including legal advisors), or other participants in this offering and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts, forecasts and statistics in this offering memorandum may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as in other jurisdictions. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to China, the PRC economy, the PRC natural gas industry and the selected PRC regional data contained in this offering memorandum.

There may be less publicly available information about us than is available in certain other jurisdictions.

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, our financial statements are prepared and presented in accordance with HKFRS, which differ in certain significant respects from U.S. GAAP. See "Summary of Certain Differences Between HKFRS and U.S. GAAP."

We will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST, which standards may be different from those applicable to debt securities listed in certain other countries.

We will be subject to reporting obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different than those imposed by securities exchanges in other countries or regions such as the United States. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

Risks Relating to the Notes

We are a holding company with no revenue generating obligations of our own and our subsidiaries may be subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.

We are a holding company. Substantially all of our business operations are conducted through our wholly or partly owned subsidiaries, associates and jointly controlled entities. Payments on the Notes are structurally subordinated to all existing and future liabilities and obligations of each of our subsidiaries, associates and jointly controlled entities. Claims of creditors of such companies will have priority as to the assets of such companies over us and our creditors, including holders of the Notes. As a result, all of the existing and future liabilities of our subsidiaries, including any claims of trade creditors and preferred stockholders, will be effectively senior to the Notes. The total indebtedness of our subsidiaries was RMB3.8 billion as of December 31, 2010. Our obligation to make payments on the Notes is solely our obligation and will not be guaranteed by any of our subsidiaries or associates.

As a result of the holding structure described above, we also depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments of such subsidiaries. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Notes. See "Description of Other Material Indebtedness."

The Notes are unsecured obligations.

As the Notes are unsecured obligations, their repayment may be compromised if:

- we enter into bankruptcy, liquidation, reorganization or other winding-up proceedings;

- there is a default in payment under our future secured indebtedness or other unsecured indebtedness; or

- there is an acceleration of any of our indebtedness.

If any of these events occur, our assets may not be sufficient to pay amounts due on the Notes.

The Notes do not contain restrictive financial or operating covenants.

The Indenture will contain various covenants intended to benefit the interests of holders of the Notes and that limit our ability to, among other things:

- incur liens;

- consolidate or merge with or into, or sell substantially all of our assets to, another person; and

- enter into sale and leaseback transactions.

These covenants are subject to a number of important exceptions and qualifications. For more details, see "Description of the Notes." The Indenture, however, does not contain restrictive financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us. In addition, the indentures do not contain any other covenants or provisions designed to afford holders of the Notes protection in the event of a highly leveraged transaction involving us or in the event of a decline in our credit rating or the rating of the Notes as the result of a takeover, recapitalization, highly leveraged transaction or similar restructuring involving us that could adversely affect such holders. Subject to the terms of our existing corporate debt and other credit facilities, we may incur substantial additional indebtedness in the future.

The Notes will be structurally subordinated to all of our secured debt and if a default occurs, we may not have sufficient funds to fulfill our obligations under the Notes.

The Notes are general senior unsecured obligations that rank equally in right of payment with all of our existing and future unsecured and unsubordinated indebtedness, including our short-term debentures. The Notes will be structurally subordinated to all our secured indebtedness and other obligations to the extent of the value of the assets securing that indebtedness and other obligations. As of December 31, 2010, we had approximately RMB1,431.9 million of secured indebtedness. In addition, the Indenture will, subject to some limitations, permit us to incur additional secured indebtedness and your Notes will be effectively junior to any additional secured indebtedness we may incur.

In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure our secured indebtedness will be available to pay obligations on the Notes only after all secured indebtedness, together with accrued interest, has been repaid in full from our assets. If we are unable to repay our secured indebtedness, the lenders could foreclose on substantially all of our assets which serve as collateral. In this event, our secured lenders would be entitled to be repaid in full from the proceeds of the liquidation of those assets before those assets would be available for distribution to other creditors, including holders of the Notes. Holders of the Notes will participate in the proceeds of the liquidation of our remaining assets ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the Notes, and potentially with all of our other general creditors. We advise you that there may not be sufficient assets remaining to pay amounts due on any or all the Notes when outstanding.

We may incur substantial additional indebtedness in the future, which could adversely affect our financial health.

As of December 31, 2008, 2009 and 2010 our total borrowings amounted to RMB5,403.1 million, RMB5,884.5 million and RMB6,262.9 million, respectively.

We may from time to time incur substantial additional indebtedness. If we or any of our subsidiaries incur additional debt, the risks that we face as a result of such indebtedness and leverage could intensify. The amount of our indebtedness could have important consequences to holders of our Notes. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

We may not be able to generate sufficient cash to satisfy our outstanding and future debt obligations

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. We may not, however, generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Indenture, there could be a default under the terms of these agreements or the Indenture, which could cause repayment of our debt to be accelerated.

We are subject to restrictions and covenants in the Indenture governing the Notes and certain of our prior debt obligations. If we are unable to comply with the restrictions and covenants in the Indenture governing the Notes, or our current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Indenture, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of debt, including the Notes, or result in a default under our other debt agreements, including the Indenture. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the Notes and other debt agreements, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk.

Our current debt obligations, including our 2012 Guaranteed Notes and our US$150 million syndicated loan facility with Bank of China (Hong Kong) Limited, or the Bank of China Syndicated Loan

Facility, include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our restricted subsidiaries, to:

- incur additional indebtedness;
- make investments or other specified restricted payments;
- create, permit to exist or to effect any restrictions on distributions from Restricted Subsidiaries;
- issue guarantees by restricted subsidiaries;
- sell assets;
- issue or sell capital stock of restricted subsidiaries;
- enter into transactions with affiliates;
- create liens;
- enter into sale and leaseback transactions;
- make investments in certain subsidiaries; and
- merge or consolidate with another company.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

We may not be able to repurchase the Notes upon a change of control.

Upon the occurrence of a change of control, the holder of each Note will have the option to require us to redeem all or some of the holder's Notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest, if any, to the date of purchase. See "Description of the Notes."

The source of funds for any such purchase would be our available cash or third-party financing. We may not, however, have enough available funds at the time of the occurrence of any change of control to make purchases of the outstanding Notes. Our failure to make the offer to purchase or to purchase the outstanding Notes would constitute an event of default under the Notes. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of change of control for purposes of the Indenture governing the Notes does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of change of control for purposes of the Indenture governing the Notes also includes a phrase relating to the sale of "all or substantially all" of our assets. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes, and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain.

Holders of the Notes may be unable to enforce their rights under U.S. bankruptcy law.

We are incorporated in the Cayman Islands and have been advised by our Cayman Islands counsel, Maples and Calder, that although there is no statutory enforcement in the Cayman Islands of judgments obtained outside of the Cayman Islands, the courts of the Cayman Islands will, based on the principle that a judgment by a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given, recognize as the basis for a claim at common law in the Cayman Islands a foreign judgment of a court of competent jurisdiction if such judgment is final, for a liquidated sum not in respect of taxes or a fine or penalty, is not inconsistent with a Cayman Islands judgment in respect of the same matters and was not obtained in a manner, and is not of a kind the enforcement of which is, contrary to the public policy of the Cayman Islands. A Cayman Islands court may stay proceedings if concurrent proceedings are being brought elsewhere.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Notes are familiar.

Because we are incorporated under the laws of the Cayman Islands, an insolvency proceeding relating to us, even if brought in the United States, would likely involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law.

A trading market for the Notes may not develop and there are restrictions on resale of the Notes.

The Notes are a new issue of securities for which there is currently no trading market. Although approval in-principle has been received for the listing and quotation of the Notes on the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing on the SGX-ST, or that, if listed, a liquid trading market will develop or continue. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See "Transfer Restrictions."

We cannot assure you, however, that we will be able to maintain such a listing, or that, if listed, a trading market will develop on the exchange. We do not intend to apply for listing of the Notes on any securities exchange other than the SGX-ST. The Notes may not be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where registration may be required.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenue, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates, fluctuations in price for comparable companies and government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. We cannot assure you that these developments will not occur in the future.

The ratings assigned to the Notes may be lowered or withdrawn in the future.

The Notes are expected to be rated BBB- by Standard & Poor's, Baa3 by Moody's and BBB by Fitch. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that the ratings will be confirmed or they will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our relevant PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends to us. Our PRC subsidiaries receive substantially all of their revenues in Renminbi. Our relevant PRC subsidiaries must present certain documents to the designated foreign exchange bank, before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid). Pursuant to the New Tax Law, if we are deemed a "non-resident enterprise," dividends distributed to us by our relevant PRC subsidiaries and interest payments made to us by our relevant PRC subsidiaries (to the extent permitted by law) are subject to up to 10.0% withholding tax. Prior to making such interest payments, the relevant PRC subsidiary must also present evidence of payment of 10.0% withholding tax. If any such PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency, the relevant PRC subsidiary will be unable to pay us interest and principal, when due, on the relevant intercompany loans, which may affect our ability to satisfy our obligations under the Notes.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the Initial Purchasers' discount and commissions and other estimated expenses payable in connection with this offering, will be approximately US$737.4 million. We intend to use the net proceeds to refinance our 2012 Guaranteed Notes, to pay off certain short-term loans of our PRC subsidiary, Xinao (China) Gas Investment Company Limited, and project loans of certain of our project companies, for business expansion and the acquisition of new projects, to finance our capital expenditures and for general corporate purposes. Pending application of the net proceeds of the offering, we intend to invest the net proceeds in bank deposits, money market instruments, certificates of deposit, time deposits or other short-term investments.

EXCHANGE RATE INFORMATION

China

The People's Bank of China, or PBOC, sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of the State Administration of Foreign Exchange, or SAFE, and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. On May 18, 2007, PBOC enlarged, the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. From July 21, 2005 to April 19, 2011, the value of the Renminbi appreciated by approximately 26.7% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. PBOC authorized the China Foreign Exchange Trading Centre, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the business day.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon buying rate			
Period	**Period end**	**Average[(1)]**	**High**	**Low**
	(RMB per US$1.00)			
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
October	6.6705	6.6675	6.6912	6.6397
November	6.6670	6.6538	6.6892	6.6330
December	6.6000	6.6497	6.6745	6.6000
2011				
January	6.6017	6.5964	6.6364	6.5809
February	6.5713	6.5761	6.5965	6.5520
March	6.5483	6.5645	6.5743	6.5483
April (through April 19, 2011)	6.5303	6.5369	6.5477	6.5286

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for average rates for periods in 2010 and 2011, which are determined by averaging the daily rates during the respective periods.

On April 19, 2011, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was US$1.00 = RMB6.5306 as certified for customs purposes by the Federal Reserve Bank of New York.

Hong Kong

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, or the Basic Law, which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. However, no assurance can be given that the Hong Kong government will maintain the link at HK$7.80 to US$1.00 or at all.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon buying rate			
Period	**Period end**	**Average[(1)]**	**High**	**Low**
	(HK$ per US$1.00)			
2006	7.7771	7.7685	7.7928	7.7506
2007	7.7984	7.8008	7.8289	7.7497
2008	7.7499	7.7814	7.8159	7.7497
2009	7.7536	7.7513	7.7618	7.7495
2010	7.7810	7.7580	7.7737	7.7501
October	7.7513	7.7579	7.7642	7.7513
November	7.7649	7.7547	7.7656	7.7506
December	7.7810	7.7736	7.7612	7.7733
2011				
January	7.7926	7.7803	7.7978	7.7683
February	7.7883	7.7895	7.7957	7.7823
March	7.7750	7.7921	7.8012	7.7750
April (through April 19, 2011)	7.7774	7.7732	7.7784	7.7671

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for average rates for periods in 2010 and 2011, which are determined by averaging the daily rates during the respective periods.

On April 19, 2011, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars was US$1.00 = HK$7.7774 as certified for customs purposes by the Federal Reserve Bank of New York.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth on an actual basis our borrowings and capitalization as of December 31, 2010 and as adjusted to give effect to the issuance of the Notes in this offering after deducting the Initial Purchasers' discounts and commissions and other estimated expenses payable by us in connection with this offering. Except as otherwise disclosed herein, there has been no material change in our capitalization since December 31, 2010.

	As of December 31, 2010			
	Actual		As Adjusted	
	RMB'000	US$'000	RMB'000	US$'000
Cash and cash equivalents[1]	2,851,300	432,015	7,717,881	1,169,376
Short-term borrowings[2][3][4]				
Bank and other loans – secured	126,000	19,091	126,000	19,091
Bank and other loans – unsecured	1,442,742	218,597	1,442,742	218,597
Short-term debentures	810,607	122,819	810,607	122,819
Total short-term borrowings	2,379,349	360,507	2,379,349	360,507
Long-term borrowings[3][4][5]				
Bank and other loans – secured	1,305,858	197,857	1,305,858	197,857
Bank and other loans – unsecured	1,261,774	191,178	1,261,774	191,178
2012 Guaranteed Notes	1,315,932	199,384	1,315,932	199,384
Notes to be issued	–	–	4,866,583	737,361
Total long-term borrowings	3,883,564	588,419	8,750,147	1,325,780
Equity attributable to owners of our Company				
Share capital (HK$0.10 par value per share, 1,050,149,397 shares issued and fully paid)	109,879	16,648	109,879	16,648
Reserves	5,921,570	897,208	5,921,570	897,208
Total equity attributable to owners of our Company	6,031,449	913,856	6,031,449	913,856
Total capitalization[6]	9,915,013	1,502,275	14,781,596	2,239,636

(1) Cash and cash equivalents exclude non-current restricted cash of RMB5.3 million (US$0.8 million) and current restricted cash of RMB64.9 million (US$9.8 million).

(2) Short-term borrowings include the current portion of long-term bank and other loans.

(3) As of December 31, 2010 our total bank and other loans amounted to RMB4,136.4 million (US$626.7 million), of which RMB1,568.7 million (US$237.7 million) and RMB2,567.6 million (US$389.0 million) are classified under current liabilities and non-current liabilities, respectively.

(4) Our borrowings do not include any capital commitments or contingent liabilities. As of December 31, 2010, capital commitments were RMB175.0 million (US$26.5 million). See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Indebtedness – Capital Commitments and Contractual Obligations"

(5) Long-term borrowings exclude the current portion of long-term bank and other loans.

(6) Total capitalization includes total long-term borrowings plus total equity attributable to owners of our Company.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected consolidated financial and other data. The selected consolidated statement of comprehensive income for the year ended December 31, 2008 and the selected consolidated statement of financial position as of December 31, 2008 set forth below have been derived from our consolidated financial statements as of and for the year ended December 31, 2009, as audited by Deloitte Touche Tohmatsu, independent certified public accountants, and included elsewhere in this offering memorandum. The selected consolidated statement of comprehensive income for the years ended December 31, 2009 and 2010 and selected consolidated statement of financial position as of December 31, 2009 and 2010 set forth below have been derived from our consolidated financial statements as of and for the year ended December 31, 2010, as audited by Deloitte Touche Tohmatsu, independent certified public accountants, and included elsewhere in this offering memorandum The 2009 financial information as contained therein was restated to reflect the change in accounting policy and adoption of certain new and revised standards as described below.

Our financial statements have been prepared and presented in accordance with HKFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions. See "Summary of Certain Differences Between HKFRS and U.S. GAAP." The selected financial data below should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

During the year ended December 31, 2010, we changed our accounting policy to state our land and buildings at cost, less any accumulated depreciation and accumulated impairment losses. In previous years, our land and buildings held for use in production or supply of goods or services were stated at their revalued amounts. We have also adopted the amendment to HKAS 17 Leases, which became effective on 1 January 2010 to reassess the reclassification of leasehold land based on the information existed at the inception of the leases. As the results, leasehold land that qualify as finance leases have been reclassified from prepaid lease payments to property, plant and equipment. This change in accounting policy and adoption of amendment to HKAS 17 are reflected in our consolidated financial statements as of and for the year ended December 31, 2010 beginning on page F-3 of this offering memorandum and has been accounted for in accordance with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors." We accounted for this change in accounting policy and adoption of amendment to HKAS 17 retrospectively by restating the financial information of prior years contained in our audited consolidated financial statements as of and for the year ended December 31, 2010, and we present our financial information on this restated basis throughout this offering memorandum (except for the audited consolidated financial information as of and for the year ended December 31, 2009 appearing on pages F-100 to F-183, which has not been restated). For a summary of the impact of this change in accounting policy and adoption of amendment to HKAS 17, please refer to notes 3 and 4 of our consolidated financial statements as of and for the year ended December 31, 2010. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – Change in Accounting Policy and Adoption of New and Revised Standards." Such restated financial information has not been audited by our independent auditors and you should not place undue reliance on it. The financial information as of and for the year ended December 31, 2009 presented below has been so restated. The financial information as of and for the year ended December 31, 2008, as presented in this offering memorandum, as well as the audited consolidated financial statements as of and for the year ended December 31, 2009 appearing on pages F-100 to F-183 of this offering memorandum (and comparative 2008 financial information therein), have not been restated to reflect the adoption of this new accounting policy and adoption of amendment to HKAS 17. Unless otherwise stated and other than the audited consolidated financial information as of and for the year ended December 31, 2009 included in this offering memorandum on pages F-100 to F-183, references to our consolidated financial information as of and for the year ended December 31, 2009 in this offering memorandum refer to such restated financial information. As the financial information for fiscal year 2008 has not been restated to reflect this change in accounting policy and adoption of amendment to HKAS 17, certain line items are not directly comparable to our financial information for fiscal year 2009, as restated, and for fiscal year 2010. Accordingly, the comparative information, discussion and analysis of the unrestated financial information for fiscal year 2008 against the financial information for fiscal year 2009, as restated, and for fiscal year 2010 in this offering memorandum may not be meaningful, and you are cautioned not to place undue reliance on such information, discussion or analysis. See "Risk Factors – Risks Relating to Our Business – Our financial information for fiscal year 2008 has not been restated to reflect a change in accounting policy and adoption of certain new and revised standards and therefore certain line items are not directly comparable to our financial information for fiscal years 2009, as restated, and 2010."

Selected Consolidated Statement of Comprehensive Income Data

	Year ended December 31,			
	2008	**2009**	**2010**	
	RMB'000	**RMB'000 (Restated)**	**RMB'000**	**US$'000**
Revenue	8,265,508	8,412,880	11,215,089	1,699,256
Cost of sales	(6,018,967)	(5,872,730)	(8,203,433)	(1,242,944)
Gross profit	2,246,541	2,540,150	3,011,656	456,312
Other income	213,882	104,586	189,049	28,644
Other gains and losses	22,419	(132,642)	20,638	3,127
Distribution and selling expenses	(130,723)	(159,025)	(212,511)	(32,199)
Administrative expenses	(1,040,571)	(857,047)	(1,169,146)	(177,143)
Share of results of associates	7,347	5,066	5,459	827
Share of results of jointly controlled entities	192,828	210,719	276,671	41,920
Finance costs	(381,044)	(328,449)	(310,851)	(47,099)
Profit before tax	1,130,679	1,383,358	1,810,965	274,389
Income tax expense	(259,955)	(304,459)	(409,800)	(62,091)
Profit for the year	870,724	1,078,899	1,401,165	212,298
Other comprehensive income:				
Gain on revaluation of properties	5,492	–	–	–
Income tax relating to other comprehensive income	(692)	–	–	–
Other comprehensive income for the year (net of tax)	4,800	–	–	–
Total comprehensive income for the year	875,524	–	–	–
Profit for the year attributable to:				
Owners of our Company	630,705	802,876	1,013,087	153,498
Non-controlling interests	240,019	276,023	388,078	58,800
Profit for the year	870,724	1,078,899	1,401,165	212,298
Total comprehensive income attributable to:				
Owners of our Company	634,830	802,876	1,013,087	153,498
Non-controlling interests	240,694	276,023	388,078	58,800
Total comprehensive income	875,524	1,078,899	1,401,165	212,298
Other financial data				
EBITDA(1)	1,807,345	2,069,878	2,546,947	385,902
EBITDA margin(2)	21.9%	24.6%	22.7%	22.7%
Total Debt(3)	5,403,140	5,884,509	6,262,913	948,926
Total Debt(3)/EBITDA	3.0	2.8	2.5	2.5
EBITDA/gross interest expense	4.7	6.3	8.2	8.2
Capital expenditures	1,216,588	1,608,711	2,188,884	331,649

(1) We calculate EBITDA by adding finance costs, depreciation and amortization expenses to profit before tax and subtracting interest income and gain arising from changes in fair value of investment properties. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to incur and service debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to owners of our Company or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, finance costs or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. For a reconciliation of profit before tax to EBITDA, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures"

(2) EBITDA margin is calculated by dividing EBITDA by revenue.

(3) Total debt includes all long-term and short-term bank loans, the 2012 Guaranteed Notes and short-term debentures and certain other indebtedness.

Selected Consolidated Balance Sheet Data

	As of December 31,			
	2008	2009	2010	
	RMB'000	RMB'000 (Restated)	RMB'000	US$'000
Non-current assets				
Property, plant and equipment	7,855,387	9,028,490	10,800,123	1,636,382
Prepaid lease payments	472,228	524,141	658,096	99,711
Investment properties	63,005	72,625	53,845	8,158
Goodwill	168,926	171,862	191,841	29,067
Intangible assets	464,712	449,773	702,352	106,417
Interests in associates	292,483	323,880	487,683	73,891
Interests in jointly controlled entities	757,620	1,015,641	1,361,265	206,252
Available-for-sale financial assets	13,956	14,056	14,433	2,187
Loan receivable	12,000	9,000	6,000	909
Other receivable	–	30,581	72,439	10,976
Amounts due from associates	–	71,795	20,700	3,136
Amounts due from jointly controlled entities	20,000	26,644	–	–
Amounts due from related companies	–	34,582	20,489	3,104
Deferred tax assets	–	33,678	130,954	19,842
Deposits paid for investments	96,228	62,200	30,000	4,545
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights	3,800	10,010	5,376	815
Restricted bank deposits	–	2,200	5,305	804
Total non-current assets	10,220,345	11,881,158	14,560,901	2,206,196
Current assets				
Inventories	254,060	286,046	249,019	37,730
Trade and other receivables	1,431,087	1,208,275	1,356,055	205,463
Prepaid lease payments	9,354	11,105	12,576	1,905
Amounts due from customers for contract work	495,318	241,415	306,913	46,502
Amounts due from associates	17,630	4,301	11,501	1,743
Amounts due from jointly controlled entities	207,350	155,041	213,585	32,361
Amounts due from related companies	57,022	16,684	12,808	1,941
Restricted bank deposits	79,817	118,270	64,891	9,832
Cash and cash equivalents	1,725,358	2,712,661	2,851,300	432,015
	4,276,996	4,753,798	5,078,648	769,492
Non-current assets classified as held for sale	76,977	–	–	–
Total current assets	4,353,973	4,753,798	5,078,648	769,492

	As of December 31,			
	2008	2009	2010	
	RMB'000	RMB'000 (Restated)	RMB'000	US$'000
Current liabilities				
Trade and other payables	2,752,280	2,771,574	3,572,688	541,316
Amounts due to customers for contract work	465,606	564,898	664,839	100,733
Amounts due to associates	46,502	76,405	69,297	10,500
Amounts due to jointly controlled entities	102,884	327,826	554,223	83,973
Amounts due to related companies	35,507	21,261	41,137	6,233
Taxation payable	75,932	97,906	172,288	26,104
Bank and other loans – due within one year	1,239,450	675,796	1,568,742	237,688
Short-term debentures	630,043	808,699	810,607	122,819
Financial guarantee liability	4,384	3,383	5,544	840
Deferred income	692	16,290	29,109	4,410
	5,353,280	5,364,038	7,488,474	1,134,616
Liability associated with assets classified as held for sale	75,000	–	–	–
Total current liabilities	5,428,280	5,364,038	7,488,474	1,134,616
Net current liabilities	(1,074,307)	(610,240)	(2,409,826)	(365,124)
Total assets less current liabilities	9,146,038	11,270,918	12,151,075	1,841,072
Capital and reserves				
Share capital	106,318	109,879	109,879	16,648
Reserves	4,149,253	5,006,792	5,921,570	897,208
Equity attributable to owners of the Company	4,255,571	5,116,671	6,031,449	913,856
Non-controlling interests	1,185,869	1,309,871	1,508,402	228,546
Total equity	5,441,440	6,426,542	7,539,851	1,142,402
Non-current liabilities				
Bank and other loans – due after one year	2,186,720	3,048,805	2,567,632	389,035
Guaranteed notes	1,346,927	1,351,209	1,315,932	199,384
Deferred tax liabilities	150,873	164,237	225,034	34,096
Deferred income	20,078	280,125	502,626	76,155
Total non-current liabilities	3,704,598	4,844,376	4,611,224	698,670
	9,146,038	11,270,918	12,151,075	1,841,072

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the section entitled "Selected Consolidated Financial and Other Data" and our audited consolidated financial statements for the years ended December 31, 2009 and 2010, including the notes thereto, included elsewhere in this offering memorandum. All significant intra-group transactions, balances and unrealized gains on intra-group transactions have been eliminated on consolidation.

Our consolidated financial statements were prepared in accordance with HKFRS, which differ in certain material respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions. See "Summary of Certain Differences Between HKFRS and U.S. GAAP." Unless otherwise specified, references in this section of the offering memorandum to "2008," "2009" and "2010" refer to our financial years ended December 31, 2008, 2009 and 2010, respectively.

Overview

We are one of the largest privately-owned piped gas operators in China. Our principal business is the investment in, and the construction, operation and management of, gas pipeline infrastructure, the sale and distribution of piped gas and bottled LPG and the operation of vehicle refueling stations in China. We are also involved in the sale of gas appliances and equipment, the production of stored value card gas meters, the provision of repair, maintenance and other services in connection with gas supply and energy management services that assist our customers in optimizing energy usage.

We commenced operations in 1993 and have since developed into one of the leading privately owned gas operators in the PRC piped gas industry. As of the date of this offering memorandum, we had a total of 90 operational locations. We operate our piped natural gas distribution infrastructure on an exclusive basis, for periods ranging from 20 to 30 years, in cities and urban areas located in 15 provinces, municipalities and autonomous regions. In April 2010, we also acquired our first international pilot project in Vietnam through a joint venture with PetroVietnam to develop piped gas and vehicle gas refueling businesses.

We typically apply for and obtain exclusive rights to distribute piped natural gas from the local governments in China. We may also acquire exclusive rights by entering into joint-ventures with existing local piped gas distributors. In addition, we construct and maintain city piped gas networks in locations in which we have acquired exclusive rights to supply piped gas. We charge connection fees from residential customers on a "per connection" basis and C/I customers on a "daily maximum capacity" basis for connection to our piped gas network. We receive gas usage charges from connected customers based on the tariffs set by the local governments.

We intend to grow organically by increasing the penetration rates and the number of connected customers for our 90 existing operational locations while continuing to acquire new projects in China, with a particular focus on the commercial and industry zones of emerging cities. In 2008, 2009 and 2010, we secured four, seven and eleven new projects, respectively, in China, which added an urban connectible population of approximately 0.8 million, 1.4 million and 2.7 million, respectively to our total connectable urban population as of December 31, 2010. As the projects in our operational locations continue to mature, we have become less reliant on one-time gas connection fees and sales of piped gas have increased as a proportion of our revenue, creating a more stable source of recurring revenue.

For the three years ended December 31, 2008, 2009 and 2010, our audited consolidated revenue was approximately RMB8,265.5 million, RMB8,412.9 million and RMB11,215.1 million (US$1,699.3 million), respectively, and our audited consolidated net profit was approximately RMB870.7 million, RMB1,078.9 million and RMB1,401.2 million (US$212.3 million), respectively. As of December 31, 2010, our audited consolidated total assets were approximately RMB19,639.5 million (US$2,975.7 million) and our shareholders' funds were approximately RMB6,031.4 million (US$913.9 million).

Factors Affecting Our Performance

The operating performance of our business is affected by the following key factors:

General economic conditions in China and other countries in which we operate

Substantially all of our projects are located in China. Thus, our results of operations and performance are substantially affected by and dependent on the overall economic growth in China. We believe that the general economic growth of China is directly correlated with the amount of natural gas consumed in China and thus greatly affects our results of operation and financial condition. Natural gas consumption in China has grown significantly in the last decade, mainly as a result of strong GDP growth in China. According to the International Monetary Fund, or IMF, China's GDP has grown from RMB7.8 trillion in 2000 to RMB25.1 trillion in 2009, representing a compound annual growth rate, or CAGR, of 13.9% in nominal terms. As China's GDP is expected to continue to growth, this growth should further drive increase in energy demand in China. In addition, and to a lesser extent, as we expand our operations outside of China, such as Vietnam, the overall economic growth in such regions, could also impact natural gas consumption and affect our results of operations and financial condition.

Government policies encouraging the adoption of cleaner burning fuels

During 2009, the PRC government announced its decision to reduce carbon dioxide emissions and is now in the process of introducing various measures to achieve a 40% to 45% reduction of carbon dioxide emissions per unit of GDP by 2020. The PRC government's 12th Five-year Plan highlighted several focuses of energy development, including, among other things: (i) the need to optimize the development of fossil fuels, control coal production capacity and to enhance the supply of natural gas; (ii) to enhance the development of the energy pipeline network; and (iii) to enhance energy saving and reduce emissions. Natural gas, a clean and efficient fossil fuel, is one of the major types of clean energy specifically promoted by the PRC government and has been explicitly prescribed as the main source of energy for urban gas utilization. As a result of the priority given by the PRC government and increased urbanization in China, China's natural gas consumption volume increased from 2.4 bcf/d in 2000 to 8.6 bcf/d in 2009, representing a CAGR of 15.4%, according to BP Statistical Review of World Energy June 2010.

In order to promote the natural gas industry, the PRC government has made significant investment in developing natural gas infrastructure. The PRC government plans to complete and launch 17 natural gas pipeline projects, including the West-East Pipeline III and IV and the China-Myanmar Oil and Gas Pipeline in the next five years. Concurrently, the PRC government plans to build more import LNG receiving terminals along the coast. The PRC government is also planning to construct several large natural gas storage facilities in order to accumulate supplies for peak usage during the winter season. The PRC government has commenced construction of four storage facilities located in Tianjin, Dagang, Huabei and Jiangsu, which are expected to commence operations in 2012. These policies have benefited and will continue to benefit our results of operations by encouraging the demand for our natural gas products. As we focus on increasing gas penetration rates across all of our operational locations and boosting connections between all of our existing gas projects, and as we expand into new regions such as Vietnam, we anticipate that our results of operations will continue to be affected by government policies encouraging the adoption of cleaner burning fuels.

Our operating results have also historically depended in part on the tax concessions and preferential tax treatment accorded by the PRC government to certain business enterprises and foreign invested enterprises in the PRC natural gas industry. However, as a result of the PRC government's strategy to develop a unified tax policy with respect to both domestic and foreign invested companies, in recent years, the effective income tax rates or many of our project companies have risen closer to the standard PRC corporate tax rate of 25%. As such, we currently expect such tax concessions and preferential tax treatment to have a lesser impact on our operations going forward. See "– Taxation."

Our ability to increase our natural gas sales volume and maintain and increase penetration rates in operational locations

As natural gas sales volume significantly affects our results of operations and financial condition, we are committed to promoting the use of natural gas in the areas that we operate. We also aim to expand into new markets where we have not yet established an operational presence. To increase our customer base, we aim to promote the benefits of natural gas, in terms of price, convenience, safety, cleanliness and environmental friendliness. Our promotional activities include broadcasting advertisements through media and distributing brochures and posters, and our campaigns (which may include joint promotional campaigns with the local government) to promote the benefits of natural gas and energy-saving equipment to reduce the overall costs of using natural gas, among other activities. However, we face competition due to the increasing number of end-users that utilize other sources of energy, including coal and oil. See "Risk Factors – Risks Relating to the PRC Natural Gas Industry – The infrastructure to support coal, gasoline and diesel consumption is vastly more developed than the infrastructure for natural gas vehicle and industrial fuels," "Risk Factors – Risks Relating to the PRC Natural Gas Industry – If there are advances in alternative vehicle and industrial fuels or technologies, or if there are improvements in gasoline, diesel or hybrid engines, demand for natural gas vehicle and industrial fuels may decline and our vehicle refueling station business may suffer" and "Risk Factors – Risks Relating to the PRC Natural Gas Industry – If the price of CNG or LNG does not remain sufficiently below the price of gasoline and diesel, potential customers will have less incentive to purchase natural gas vehicles or convert their vehicles to natural gas, which would decrease demand for CNG and limit our growth."

Our ability to maintain and increase our customer penetration rate in existing and new markets remains crucial to our financial performance and condition.

Our annual natural gas purchase volumes were substantially similar to our annual natural gas sales volumes during the year 2010 primarily as a result of the completion of our natural gas storage system which allows part of our natural gas reserves in certain city gas projects to be stored for the purpose of responding to potential shortages in the supply of natural gas. We set out below the total volume of piped and vehicle gas and the percentage of total sales of piped and vehicle gas we sold for the periods indicated:

	Year ended December 31,					
	2008		**2009**		**2010**	
	(million m^3)	**(%)**	**(million m^3)**	**(%)**	**(million m^3)**	**(%)**
Total volume of natural gas sold						
Gas sale to residential customers	347.0	13.5%	499.9	17.0%	615.4	14.8%
Gas sale to C/I customers	1,536.2	59.7%	1,761.6	59.9%	2,683.1	64.7%
Vehicle gas refueling stations	317.0	12.3%	370.0	12.6%	509.1	12.3%
Total volume of natural gas sold	2,200.2	85.5%	2,631.5	89.5%	3,807.6	91.8%
Total volume of other piped gas sold (petroleum and coal)	354.6	13.8%	289.9	9.9%	330.4	8.0%
Total volume of other vehicle gas sold (LPG)	17.0	0.7%	18.4	0.6%	11.3	0.2%
Total volume of piped and vehicle gas sold	2,571.8	100.0%	2,939.8	100.0%	4,149.3	100.0%

Successful expansion of our vehicle fueling station business in our target markets

We regard our vehicle gas refueling station business as one of our core businesses. During 2010, we completed and commenced operation of 30 new vehicle gas refueling stations, resulting in a total of 192 LNG and CNG vehicle gas refueling stations located in 46 cities across China, among which 12 were not located in our gas project cities. In addition, as of December 31, 2010, we have obtained construction approval from local governments for 385 vehicle gas refueling stations. As a result, the volume of gas sales to vehicles increased by 37.6% as compared to the year 2009.

Because of the PRC government's focus on environmental protection, the local governments of many cities and provinces are aiming to reduce vehicle emissions which cause air pollution. Our vehicle refueling stations provide CNG and LNG for vehicles using natural gas, which is a cleaner alternative to gasoline and diesel. As the cost of natural gas is currently significantly less than that of gasoline and diesel, and as the PRC economy continues to grow and the number of vehicles in China continues to increase, we believe our vehicle gas refueling station business will continue to experience rapid growth. As a result of these factors, we believe that the vehicle gas refueling station business may increase as a proportion of our natural gas sales revenue in the long run and we plan to increase the economies of scale for the gas projects we have on hand and continue to expand our vehicle gas refueling station business to cover more cities.

Although CNG and LNG currently has a price advantage over gasoline, in June 2010, the NDRC determined that natural gas for vehicle use should be priced no lower than 75% of the price of gasoline. As this is much higher than the current price for natural gas for vehicle use, the NDRC set the current floor price for natural gas price at 60.0% of the price of gasoline. The floor price will be gradually adjusted to 75.0% of the price of gasoline over a two-year period. The NDRC's policy will cause the price of natural gas for vehicle use to rise, eroding its price advantage over competing fuel sources and could affect our sales volumes derived from vehicle customers.

Purchase price of natural gas as a raw material

Natural gas constitutes the most important raw material for our business and the purchase price of natural gas significantly affects our results of operations and financial condition. Our results of operations for the three years ended December 31, 2008, 2009 and 2010 have benefited from the natural gas procurement and sale prices set by government authorities. For the three years ended December 31, 2008, 2009 and 2010, our purchases of natural gas amounted to RMB2,528.4 million, RMB3,378.1 million and RMB5,941.1 million (US$900.2 million), respectively, representing 42.0%, 57.5% and 72.4%, respectively, of our cost of sales.

We buy natural gas at city-gate prices, which is the wellhead price plus transportation cost and sell to end users at prices set by the local governments. The NDRC determines the benchmark wellhead price as well as the transportation cost for national long-distance transmission pipelines, but also permits natural gas purchasers and sellers to contractually agree on a wellhead price not exceeding 110% of the NDRC's benchmark wellhead price. Provincial price control bureaus determine the transportation costs for provincial gas pipelines, including provincial long-distance transmission pipelines, based on the distance from the gas wellhead. We currently purchase a majority of our natural gas from PetroChina, Sinopec and CNOOC, or their distributors, at city-gate prices which are typically fixed on an annual basis under our contracts. On May 31, 2010, the NDRC issued the NDRC Price Increase Notice, which raised the benchmark wellhead prices by RMB230 per thousand m^3, starting from June 1, 2010 for various onshore gas fields and pipelines. Accordingly, the city-gate prices for our natural gas purchases are significantly affected by factors which are outside of our control. As we expand our natural gas business into other locations, we expect our results of operations to continue to be affected significantly by the regulation of natural gas prices in China.

Sale price of natural gas

During the three years ended December 31, 2008, 2009 and 2010, natural gas sales accounted for 45.4%, 58.0% and 69.9% of our total revenue, respectively. Our revenue correlates directly with the price of natural gas we sell to our customers.

We are required to obtain approval from the relevant local pricing authorities for the retail price of the piped natural gas sold in a particular region, as well as any adjustment to the retail price. As retail prices are set by local pricing bureaus, rather than the PRC central government, they can vary significantly between cities. Specifically, in cities with established price linkage mechanisms, retail prices to downstream residential users of natural gas will be adjusted in line with adjustments in prices for upstream purchases of natural gas supply. In cities without established price linkage mechanisms, any adjustments in retail prices to residential users will be determined following hearings held by the local pricing bureaus. Indicative prices for C/I customers, and CNG vehicle refueling station customers are set by the local governments. We will confirm the final price with customers based on the indicative price set by the local government. As a result of these factors, the average selling prices at each of our operational locations could vary significantly depending on the locality.

Moreover, there is typically a time lag for us to pass through any increase in our city-gate prices to residential users because any adjustment in end user prices is subject to approval by the local pricing bureau through a public hearing. The time lag to pass on any increase in our city-gate prices to our C/I customers is often shorter than that for residential users because our C/I customer prices are often based on contract terms. These contract terms are typically based on an indicative price set by local governments that is adjustable within a negotiated range so it can be renegotiated faster after any increase in wellhead prices.

We maintain our relationships with the NDRC and local authorities to ensure they receive adequate feedback with respect to the sales prices of natural gas. Our ability to maintain or increase the sale price of natural gas remains a crucial factor in our revenue and margins.

Our ability to maintain our supply of natural gas

Our ability to maintain an adequate supply of natural gas significantly affects our results of operations and financial performance. Specifically, our business and profitability is contingent on our ability to continue to purchase natural gas from these suppliers on similar or acceptable terms, and on the timely delivery of, and quality of natural gas supplied by our suppliers via pipelines. We have entered into agreements to purchase natural gas with terms up to 25 years from three major gas suppliers in China, namely PetroChina, Sinopec and CNOOC. The quantity of natural gas to be supplied to us by our suppliers is usually stated in our gas purchase agreements. See "Business – Purchases – Gas." Our ability to maintain our supply of natural gas remains critical to satisfy the needs of our customers and maintain our financial performance. We set out below the total volume of natural gas we purchased from major suppliers of the periods indicated:

	Year ended December 31,		
	2008	**2009**	**2010**
	In millions of m^3		
Major suppliers of natural gas			
PetroChina	1,365	1,650	2,105
Sinopec	161	243	355
CNOOC	565	650	1,185
Total volume	2,091	2,543	3,645

The availability and cost of adequate financing for our capital expenditures

It is essential that we have enough financing alternatives or cash flow to support our business expansion in the future. Our capital expenditures are generally comprised of the construction of domestic gas pipeline networks and the construction of vehicle gas refueling stations. Therefore, periodically we require large amounts of capital expenditures to finance these projects. During the year ended December 31, 2010, we spent approximately RMB2.2 billion as capital expenditures primarily consist of expansion relating to new projects and construction of vehicle gas refueling stations.

Our strategy is to finance our business and other capital expenditures primarily through operating cash flow, internal liquidity, equity and note issuances and bank and other loans. As of December 31, 2010, our total debt amounted to RMB6,262.9 million. The balance of our borrowings and the total amount raised through other financing methods, as well as any interest rate fluctuations and other borrowing costs, will materially affect our finance costs, results of operations and financial condition.

Critical Accounting Policies and Estimates

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Our significant accounting policies and key sources of estimation uncertainty, which are important for an understanding of our financial condition and results of operations, are set forth in detail in notes 5 and 6 to the consolidated financial statements as of and for the year ended December 31, 2010 starting on page F-13 of this offering memorandum. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items such as revenue recognition, cost or expense allocation and provision. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our consolidated financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our consolidated financial statements.

Change in Accounting Policy and Adoption of New and Revised Standards

In previous years, our land and buildings held for use in production or supply of goods or services were stated at their revalued amounts. We believe that measuring land and buildings at cost provides more relevant information about our financial performance to the economic decision-making needs of users and most companies engaged in the business of distributing natural gas in China adopt the same model in measuring land and buildings. As a result, during the year ended December 31, 2010, we changed our accounting policy to state our land and buildings at cost, less any accumulated depreciation and accumulated impairment losses. We have also adopted the amendment to HKAS 17 Leases, which became effective on 1 January 2010 to reassess the reclassification of leasehold land based on the information that existed at the inception of the leases. As the result, leasehold land that qualify as finance leases have been reclassified from prepaid lease payments to property, plant and equipment. This change in accounting policy and the adoption of amendment to HKAS 17 are reflected in our consolidated financial statements as of and for the year ended December 31, 2010 beginning on page F-3 of this offering memorandum and has been accounted for in accordance with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors." We accounted for this change in accounting policy and adoption of amendment to HKAS 17 retrospectively by restating the financial information of the prior years contained in our audited consolidated financial statements as of and for the year ended December 31, 2010, and present such restated financial information throughout this offering memorandum (except for the audited consolidated financial statements as of and for the year ended December 31, 2009 appearing on pages F-100 to F-183, which has not been restated). For a summary of the impact of this change in accounting policy and adoption of amendment to HKAS 17, please refer to note 3 and 4 of our consolidated financial statements as of and for the year ended December 31, 2010.

We have also applied a number of new and revised standards and interpretations issued by HKICPA that are mandatorily effective for our Group's financial year ended December 31, 2010. The details of the new and revised standards and interpretation are set out in Note 4 of our consolidated financial statements as of and for the year ended December 31, 2010.

Revenue Recognition

Revenue represents amounts receivable for goods sold and services provided in the normal course of business, net of estimated customer returns, rebates and other similar allowances. We measure revenue at the fair value of the consideration received or receivable.

Gas connection revenue

For substantially all of our operational locations, we recognize gas connection revenue when the outcome of a gas connection contract can be reliably estimated and the contract's stage of completion can be reliably measured at the end of the reporting period. We recognize revenue from gas connection contracts based on the percentage of completion method, measured by reference to the value of work carried out during the year. When we cannot reliably estimate the outcome of a gas connection contract, we recognize revenue only to the extent of the contract cost incurred that is probable to be recoverable.

We have traditionally applied a one-time revenue recognition policy for our gas connection revenue. In mid-2009, however, following the issuance of a detailed pricing strategy by the local pricing authorities in eight of our operational locations, we adopted the amortization method of recording gas connection revenue for these eight operational locations. As a result, gas connection revenue for these eight operational locations is recognized monthly over the life of our operational period in that location pursuant to our franchise contracts in line with the depreciation of the capital cost of assets in that operational location.

Revenue from the sale of gas and gas appliances

We recognize revenue from sale of gas (including piped gas and sales from vehicle refueling stations) and gas appliances when the goods are delivered and title has passed.

Interest income

We recognize interest income from a financial asset when it is probable that economic benefits will flow to us and the amount of revenue can be measured reliably. We accrue interest income from a financial asset on a time basis by reference to the outstanding principal and at the effective interest rate applicable. The effective interest rate 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

We recognize service income at the time when services are provided. Such services relate to miscellaneous income, including income from logistics and energy services.

Dividend income

We recognize dividend income from investments when the shareholders' right to receive payment has been established (provided that it is probable that the economic benefits will flow to us and the amount of revenue can be measured reliably).

Transfer of assets from customers

When we receive cash from a customer for the construction or acquisition of an item of property, plant and equipment in a situation where we must then use the item of property, plant and equipment to provide the customer with on-going access to a supply of gas, we recognize the item of property, plant and equipment in accordance with HKAS 16 Property, Plant and Equipment and we recognize the revenue (the credit resulting from the initial recognition of the item of property, plant and equipment) in accordance with HKAS 18 Revenue.

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

Gas Connection Contracts

When we can reliably estimate the outcome of a gas connection contract and we can reliably measure the stage of the contract's completion at the end of the reporting period, we charge the contract costs to our 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 is recognized.

When we cannot reliably estimate the outcome of a gas connection contract, we recognize contract costs as expenses in the period in which we incur such expenses. When it is probable that total contract costs will exceed contract revenue, we recognize the expected loss as an expense immediately.

Where the contract costs incurred to date plus recognized profits less recognized losses, exceed progress billings, we show the net balances as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, we show the net balances as amounts due to customers for contract work.

We include amounts received before we perform the related work in our consolidated statement of financial position, as a liability, as advances received. We include amounts billed for work performed but not yet paid by the customer in the consolidated statement of financial position under trade and other receivables.

When a gas connection contract includes a gas supply component, we recognize revenue on a straight-line basis over the life of the connection service and gas supply period. We state the unearned portion of the gas connection income we receive as deferred income in the consolidated statement of financial position.

Depreciation of Property, Plant and Equipment

We calculate depreciation of property, plant and equipment on a straight-line basis to write off the costs or fair value of property, plant and equipment (other than construction in progress) over their estimated useful lives, after taking into account their estimated residual value. The primary annual rates and the estimated useful lives used for this purpose are as follows:

	Estimated useful life of asset	**Annual rate of depreciation**
Land and buildings	Over the shorter of 30 years or the term of the leases	Approximately 3%
Pipelines	Over the shorter of 30 years or the term of the leases	Approximately 3%
Machinery and equipment	10 years	9%
Motor vehicles	6 years	15%
Office equipment	6 years	15%

We review our estimate of the residual value and the useful life of our property, plants and equipment annually and if the expectations differ from the original estimates, the differences from the original estimates will impact the depreciation charges in the year in which the estimates change.

Construction in progress includes property, plant and equipment in the course of construction for production or supply of goods and services, or for administrative purposes. We record construction in progress at cost less any recognized impairment loss. We classify construction in progress to the appropriate category of property, plant and equipment when the property, plant and equipment are completed and ready for intended use. When the assets are ready for their intended use, we depreciate the assets on the same basis as other property assets.

Inventories

We record inventories, including construction materials, gas appliances and gas for sale, consumables and spare parts, at the lower of cost and net realizable value. We calculate cost using the weighted average cost formula. Net realizable value represented the estimated selling prices for inventories less the estimated costs to completion and the estimated costs necessary to make the sale.

Impairment of Financial Assets and Goodwill

Financial assets

Our financial assets include loan receivable, trade and other receivables, amounts due from associates, cash and cash equivalents, amounts due from jointly controlled entities, amounts due from related companies, restricted bank deposits and available-for-sale financial assets.

We assess our financial assets for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For available-for-sale financial assets, we consider a significant or prolonged decline in the fair value of the investment below its cost to be objective evidence of impairment. For all other financial assets, we consider factors that provide objective evidence of impairment, including, a significant financial difficulty of the issuer or counterparty, any breach of contract, such as default or delinquency in interest or principal payments or it is probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, we assess impairment on a collective basis. We make impairment of trade and other receivables based on an assessment of the recoverability of receivables. We apply impairment loss 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. We are required to use judgment and estimates in identifying impairment loss. Where we expect the recoverability of trade and other receivables to be 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. Our past experience of collecting payments on receivables, an increase in the number of delayed payments in the portfolio of receivables past the average credit period of 60 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables could be objective evidence of impairment for a portfolio of receivables.

Goodwill

To determine whether goodwill is impaired, we are required to estimate the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires us 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. A material impairment loss may arise where the actual future cash flows are less than expected.

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. We calculate our liability for current tax using tax rates that have been enacted or substantively enacted by the end of the reporting period.

We recognize deferred tax based on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases we use in the computation of taxable profit. We generally recognize deferred tax liabilities for all taxable temporary differences. We generally recognize deferred tax assets for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which we can utilize those deductible temporary differences. We do not recognize such deferred tax assets and liabilities 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.

We recognize deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. We only recognize deferred tax assets arising from deductible temporary differences associated with such investments and interests to the extent our management believes it is probable that there will be sufficient taxable profits against which we can utilize the benefits of the temporary differences and the temporary differences are expected to reverse in the foreseeable future.

We review the carrying amount of deferred tax assets at the end of the reporting period and reduce the carrying amount 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.

We measure deferred tax assets and liabilities at the tax rates we expect to apply in the period in which the liability is settled or the asset is realized, based on the 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 we expect, at the end of the period, to recover or settle the carrying amounts of our assets and liabilities.

We recognize current and deferred tax in profit or loss, except when it relates to items we recognize in other comprehensive income or directly in equity, in which case, we recognize the current and deferred tax in other comprehensive income or directly in equity respectively.

Certain Income Statement Items

Revenue

We derive our revenue from sales of piped gas to residential and C/I customers, distributions of bottled LPG, sales of gas at our vehicle gas refueling stations, sales of gas appliances (including gas stoves, water heaters, gas cookers and stoves) and gas connection fees. The following table sets forth the breakdown of our revenue and as a percentage of total revenue for the periods indicated:

	Year ended December 31,						
	2008		2009		2010		
	RMB'000	%	RMB'000	%	RMB'000	US$'000	%
			(Restated)				
Sale of Goods							
Sales of piped gas	3,094,767	37.4%	4,077,527	48.5%	6,632,734	1,004,960	59.1%
Distributions of bottled LPG	2,009,304	24.3%	897,121	10.6%	240,290	36,407	2.2%
Vehicle gas refueling stations	661,160	8.0%	797,663	9.5%	1,209,385	183,240	10.8%
Sales of gas appliances	78,660	1.0%	86,814	1.0%	83,903	12,713	0.7%
	5,843,891	70.7%	5,859,125	69.6%	8,166,312	1,237,320	72.8%
Provision of service							
Gas connection fees	2,421,617	29.3%	2,553,755	30.4%	3,048,777	461,936	27.2%
Total	8,265,508	100.0%	8,412,880	100.0%	11,215,089	1,699,256	100.0%

We have historically sold bottled LPG to three groups of customers: C/I customers, residential customers and small wholesalers. Given the low gross profit margin of sales of bottled LPG from residential customers and small wholesalers in 2008, we began implementing our strategy of substantially reducing our sales of bottled LPG to these two customer groups to focus more on sales of bottled LPG to our relatively higher margin C/I customers as well as to focus our resources more on our higher gross profit margin piped gas business.

Cost of Sales

Our cost of sales consists of the cost of connection, the cost of supplying gas, the cost of selling gas appliances and depreciation. The following table sets forth our cost of sales broken down by nature for the periods indicated:

	Year ended December 31,						
	2008		2009		2010		
	RMB	% of total	RMB	% of total	RMB	US$	% of total
			(Restated)				
	(in millions, except percentages)						
Cost of connection:							
Subcontracting fees	264.7	4.4%	354.6	6.0%	481.3	72.9	5.9%
Project management fees	59.7	1.0%	52.9	0.9%	64.4	9.8	0.8%
Materials	600.8	10.0%	619.1	10.5%	802.3	121.6	9.8%
Cost of supplying gas:							
Purchase of pipeline gas	2,528.4	42.0%	3,378.1	57.5%	5,941.1	900.2	72.4%
Pipeline gas operating costs	201.4	3.3%	209.3	3.6%	280.5	42.5	3.4%
Purchase of LPG	1,925.4	32.0%	820.0	14.0%	206.2	31.2	2.5%
LPG operating costs	134.4	2.2%	68.9	1.2%	22.1	3.3	0.2%
Cost of selling gas appliances	59.4	1.0%	67.8	1.2%	61.6	9.3	0.8%
Depreciation	244.8	4.1%	302.0	5.1%	343.9	52.1	4.2%
Total	6,019.0	100.0%	5,872.7	100.0%	8,203.4	1,242.9	100.0%

Other Income

Other income is primarily comprised of interest income on cash deposits, incentive subsidies and net gains on foreign exchange. Incentive subsidies mainly represent incentives given by various governmental authorities in China in the form of refunds of taxes in order to encourage the development of the natural gas business. Net gains on foreign exchange mainly represent exchange gains derived from the translation of our US$-denominated 2012 Guaranteed Notes into Renminbi, our reporting currency. Other income is also comprised of items such as imputed interest on interest-free advances to related companies, compensation received, repairs and maintenance income, net rental income from investment properties, pipeline transmission income and financial guarantee income.

Distribution and Selling Expenses

Selling expenses principally cover salaries and benefits for our sales and marketing staff, marketing and advertising expenses as well as other business promotional expenses and maintenance costs.

Administrative Expenses

Administrative expenses mainly consist of salary, employee benefits and welfare expenses for our administrative staff, utilities expenses and certain office expenses, depreciation and amortization, travelling expenses, business entertainment expenses and other miscellaneous expenses.

Other Gains and Losses

Other gains and losses primarily consist of impairment losses on trade and other receivables (including reversals) or on property, plant and equipment, loss or gain on the disposal of property, plants and equipment, the disposal, derecognition or deregistration of an associate, jointly controlled entities or subsidiaries or the disposal of prepaid lease payments, write-off of other receivables, revaluation (deficit) surplus on property, plant and equipment and increase or decrease in fair value of investment properties.

Finance Costs

Finance costs primarily consist of interest on our bank or other loans, 2012 Guaranteed Notes, short-term debentures and discounted bills, net of amount capitalized under construction in progress.

Taxation

Under the current laws of the Cayman Islands, we are not subject to any income or capital gains tax. Additionally, dividend payments made by us are not subject to any withholding tax in the Cayman Islands.

No provision for Hong Kong profits tax was made in the three years ended December 31, 2008, 2009 and 2010 as our Group has no assessable profit for the relevant period.

Accordingly, taxation primarily represents the tax payable by our subsidiaries in China and represents the sum of the tax currently payable and deferred tax.

Under the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) and the Regulations for Implementation of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (together, the "New Tax Law"), respectively enacted by the National People's Congress of the PRC and its Standing Committee (the "NPC" or the "National People's Congress") in March 2007 and by the State Council of the PRC in December 2007, both of which took effect on January 1, 2008, the enterprise income tax rate applicable to our PRC subsidiaries is 25%, subject to exceptions for certain of our PRC subsidiaries that are entitled to various concessionary rates, as discussed below.

Pursuant to the relevant laws and regulations of the PRC in respect of preferential tax benefit for entities engaged in energy infrastructure business, certain of PRC subsidiaries which enjoyed a preferential enterprise income tax rate of 15% in 2007 will gradually transit to the new tax rate of 25% within five years of the enforcement of the New Tax Law. Based on that transition, the tax rate applicable to such PRC subsidiaries was 18%, 20% and 22% in 2008, 2009 and 2010, respectively.

Pursuant to the relevant PRC laws and regulations, certain of our PRC subsidiaries are entitled to an exemption from the 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 the PRC enterprise income tax rate for the following three years. Under the New Tax Law, the PRC enterprise income tax rates applicable to such PRC subsidiaries for 2010 range from 22% to 25% (2008:18% to 25%; 2009: 20% to 25%) and the reduced tax rates for the relief period range from 11% to 12.5% (2008: 9% to 12.5%; 2009: 10% to 12.5%). The charge of PRC enterprise income tax for 2008, 2009 and 2010 has been provided for after taking these tax incentives into account. The tax benefit will expire during the period from year 2011 to 2012.

Under the New Tax Law, a 10% withholding tax is levied on a foreign investor that is "non-resident enterprise" in respect of dividend distributions received from a foreign investment enterprise, to the extent such dividend is sourced within China. Pursuant to the grandfathering treatment of the New Tax Law, dividends receivable by us from our PRC subsidiaries in respect of their undistributed retained earnings prior to December 31, 2007 are exempt from withholding tax. For our financial statements as of December 31, 2008, 2009 and 2010, we recognized deferred tax liabilities of RMB23.1 million, RMB39.4 million and RMB36.9 million, respectively, in respect of the undistributed retained earnings of our PRC subsidiaries. As of December 31, 2008, 2009 and 2010, the aggregate amount of temporary differences associated with the PRC subsidiaries' undistributed retained earnings for which deferred tax liabilities have not been recognized were RMB54.7 million, RMB113.1 million and RMB190.0 million, respectively. No deferred tax liabilities have been recognized in respect of these differences because we are in a position to control the dividend policies of these PRC subsidiaries and we may not intend to reverse such differences in the foreseeable future.

In accordance with the relevant tax laws, rules and regulations in China, Sino-foreign joint ventures and wholly owned foreign enterprises are liable to pay income tax on net profits. Accordingly, our Sino-foreign joint ventures and wholly owned foreign enterprises are subject to an income tax rate of 15% to 25%. Furthermore, depending on the nature of the enterprise's business and subject to obtaining approval from the relevant tax authority, they may qualify for tax concessions, which include tax exemption for two years from the first profit making year (after recoupment of retained losses if any), and 50% reduction for the three years thereafter, resulting in an income tax rate of 15%. All of our project companies, Xinao Gas Development, Yancheng Xinao CNG and Xinao Gas Equipment qualify for this tax concession. In addition to income tax, value added tax, or VAT, is payable on gas usage charges and sales of gas appliances in China. The net VAT payable is calculated as 13% of revenue from sales of piped natural gas and 17% of revenue from sales of gas appliances after deducting input credit VAT, which is VAT paid on cost of goods sold. In addition, a business tax of 3% or 5% of revenue is payable for the provision of services in China.

Our Results of Operations

The following table sets forth, for the periods indicated, certain items derived from our consolidated statements of comprehensive income:

	Year ended December 31,			
	2008	2009	2010	
	RMB'000	RMB'000	RMB'000	US$'000
		(Restated)		
Revenue	8,265,508	8,412,880	11,215,089	1,699,256
Sales of piped gas	3,094,767	4,077,527	6,632,734	1,004,960
Distributions of bottled LPG	2,009,304	897,121	240,290	36,407
Vehicle gas refueling stations	661,160	797,663	1,209,385	183,240
Sales of gas appliances	78,660	86,814	83,903	12,713
Gas connection fees	2,421,617	2,553,755	3,048,777	461,936
Cost of sales	(6,018,967)	(5,872,730)	(8,203,433)	(1,242,944)
Gross profit	2,246,541	2,540,150	3,011,656	456,312
Other income	213,882	104,586	189,049	28,644
Other gains and losses	22,419	(132,642)	20,638	3,127
Distribution and selling expenses	(130,723)	(159,025)	(212,511)	(32,199)
Administrative expenses	(1,040,571)	(857,047)	(1,169,146)	(177,143)
Share of results of associates	7,347	5,066	5,459	827
Share of results of jointly controlled entities	192,828	210,719	276,671	41,920
Finance costs	(381,044)	(328,449)	(310,851)	(47,099)
Profit before tax	1,130,679	1,383,358	1,810,965	274,389
Income tax expense	(259,955)	(304,459)	(409,800)	(62,091)
Profit for the year	870,724	1,078,899	1,401,165	212,298
Other comprehensive income:				
Gain on revaluation of properties	5,492	–	–	–
Income tax relating to other comprehensive income	(692)	–	–	–
Other comprehensive income for the year (net of tax)	4,800	–	–	–
Total comprehensive income for the year	875,524	1,078,899	1,401,165	212,298

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue

Revenue increased by RMB2,802.2 million, or 33.3%, to RMB11,215.1 million (US$1,699.3 million) in 2010 from RMB8,412.9 million in 2009. This increase was primarily due to increases in revenue from sales of piped gas and vehicle gas refueling stations, offset in part by a decrease in distributions of bottled LPG and sales of gas appliances.

Sales of piped gas

Revenue from sales of piped gas increased by RMB2,555.2 million, or 62.7%, to RMB6,632.7 million (US$1,005.0 million) in 2010 from RMB4,077.5 million in 2009, primarily due to an increase in the volume of piped gas sold. Total sales volume of piped gas increased by 1,209,524,000 m^3, or 41.1%, to 4,149,356,000 m^3 in 2010 from 2,939,832,000 m^3 in 2009. Revenue from the sale of piped gas represented 59.1% of our total revenue in 2010 as compared to 48.5% of our total revenue in 2009. Since we adjusted our development strategy from expanding our geographic coverage to focusing on increasing the gas penetration rate at our existing locations, the sales volume of piped gas has increased, making revenue from the sales of piped gas, the major source of our income.

Distributions of bottled LPG

Revenue from distributions of bottled LPG decreased by RMB656.8 million, or 73.2%, to RMB240.3 million (US$36.4 million) in 2010 from RMB897.1 million in 2009. This was principally as a result of a decrease in the volume sold from 357,364 tons of LPG in 2009 to 47,919 tons of LPG in 2010. The decrease in volume is in line with our strategy of substantially reducing our bottled LPG business given its low gross profit margin in order to focus our resources more on our higher gross profit margin piped gas business. Revenue from sales of bottled LPG accounted for 2.2% of our total revenue in 2010 as compared to 10.6% of our total revenue in 2009.

Revenue from vehicle gas refueling stations

Revenue from our vehicle gas refueling stations increased by RMB411.7 million, or 51.6%, to RMB1,209.4 million (US$183.2 million) in 2010 from RMB797.7 million in 2009. The increase was primarily due to an increase in the volume of CNG sold as well as price increases. Total sales volume of CNG increased by 139.1 million m^3, or 37.6%, to 509.1 million m^3 in 2010 from 370.0 million m^3 in 2009. The increase in sales volume was due to the addition of 30 operational vehicle gas refueling stations and the completion of the conversion of an additional 7,630 taxis and 294 buses into natural gas vehicles in 2010. The increase in revenue from vehicle gas refueling stations was partially offset by a decrease in total sales volume of LPG by 7.1 million m^3, or 38.4%, to 11.3 million m^3 in 2010 from 18.4 million m^3 in 2009. Revenue from our vehicle gas refueling stations accounted for 10.8% of our total revenue in 2010 as compared to 9.5% of our total revenue in 2009.

Sales of gas appliances

Revenue from sales of gas appliances decreased by RMB2.9 million, or 3.3%, to RMB83.9 million (US$12.7 million) in 2010 from RMB86.8 million in 2009. The decrease in revenue from sales of gas appliances was primarily due to the Company's increasing reliance on online marketing for its natural gas products and services, which has allowed the Company to close some of its sales offices, thereby resulting in a decrease sales of gas appliances.

Gas connection fees

Gas connection fees increased by RMB495.0 million, or 19.4%, to RMB3,048.8 million (US$461.9 million) in 2010 from RMB2,553.8 million in 2009. The increase was due to an increase in natural gas connections for residential households and for C/I customers and a slight increase in the average connection fee for residential households. Natural gas connections for new residential households increased by 11.1% from 788,281 connections in 2009 to 875,744 connections in 2010; while natural gas connections for new C/I customers increased by 53.9% from 2,715 connections in 2009 to 4,178 connections in 2010. 75.4% of the gas connection fees in 2010 were derived from residential households compared to 75.1% of the gas connection fees in 2009, with the remainder of the fees derived from C/I customers. At the end of 2010, we had achieved a piped gas penetration rate for residential households of 36.0%, up from 32.4% at the end of 2009. Gas connection fees accounted for 27.2% of our total revenue in 2010 as compared to 30.4% of our total revenue in 2009. Our profit margin from gas connection fees decreased to 53.1% in 2010 from 57.1% in 2009. This is primarily due to our adoption of the amortization method to record the gas connection fee revenue since the second half of 2009 for eight of our projects. For those eight projects, the relevant local governments have allowed us to amortize the gas connection fee income received over the operation period, usually 30 years, to match the depreciation cost of the relevant pipeline.

Cost of sales

Cost of sales increased by RMB2,330.7 million, or 39.7%, to RMB8,203.4 million (US$1,242.9 million) in 2010 from RMB5,872.7 million in 2009, primarily due to (i) an increase in procurement costs for pipeline gas as a result of the NDRC raising wellhead prices in June 2010, which was in line with our growth in sales revenue and (ii) an increase in material costs relating to gas connections.

Gross profit

Gross profit increased by RMB471.5 million, or 18.6%, to RMB3,011.7 million (US$456.4 million) in 2010 from RMB2,540.2 million in 2009, primarily as a result of an increase in revenues from our gas connection and piped gas sales.

Our gross profit margin decreased to 26.9% in 2010 from 30.2% in 2009. The decrease was primarily due to (i) a change in our revenue recognition policy for gas connection revenue for eight of our operational locations since the second half of 2009 from the percentage of completion method to the amortization method, which resulted in gas connection revenue from these projects being recognized over the life of our operational period in such location pursuant to our franchise contracts, and (ii) a change in our revenue mix, with an increase in the percentage contribution from the distribution of piped gas, which carries a lower margin than gas connection fees but represents a more sustainable revenue source, and a decrease in the percentage contribution from connection fees.

Other income

Other income increased 80.7% to RMB189.0 million (US$28.6 million) in 2010 from RMB104.6 million in 2009, primarily as a result of gains on foreign exchange arising from the translation of our US$-denominated 2012 Guaranteed Notes into Renminbi, our reporting currency, and incentive subsidies in the form of refunds of various taxes or other incentives to encourage the development of natural gas businesses by government authorities in various cities in China.

Distribution and selling expenses

Selling expenses increased 33.6% to RMB212.5 million (US$32.2 million) in 2010 from RMB159.0 million in 2009, primarily due to an increase in employee salaries, increased maintenance costs and increased advertising and promotion expenses from our widespread promotional activities for our gas connection business. As a percentage of revenue, selling expenses remained stable at approximately 1.9% in both 2009 and 2010.

Administrative expenses

Administrative expenses increased 36.4% to RMB1,169.1 million (US$177.1 million) in 2010 from RMB857.0 million in 2009, primarily as a result of share option expenses, the addition of new operational locations in Yunnan and Guangdong provinces and increased labor costs resulting from adjustments to employee salary in accordance with GDP growth in certain operational locations. As a percentage of revenue, administrative expenses remained relatively stable at approximately 10.4% in 2010 compared to approximately 10.2% in 2009.

Other gains and losses

In 2010, there was a gain of RMB20.6 million (US$3.1 million) compared to a loss of RMB132.6 million in 2009. The following are the components of other gains and losses:

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

Share of results of associates

Our share of results of associates increased 7.8% to RMB5.5 million in 2010 (US$0.8 million) from RMB5.1 million in 2009 primarily due to increased profit following the consolidation of our Shanghai Jiuhuan associated companies.

Share of results of jointly controlled entities

In 2010, our share of results of jointly controlled entities increased 31.3% to RMB276.7 million (US$41.9 million) from RMB210.7 million in 2009. The increase was primarily attributable to growth in our Dongguan, Changsha, and Zhuzhou projects.

Finance costs

Finance costs decreased 5.3% to RMB310.9 million (US$47.1 million) in 2010 from RMB328.4 million in 2009, due primarily to a decrease in interest expenses associated with repayment of certain higher interest onshore debt from the proceeds of lower interest short-term debentures.

Profit before tax

As a result of the cumulative effect of the foregoing, profit before income tax increased 30.9% to RMB1,811.0 million (US$274.4 million) in 2010 from RMB1,383.4 million in 2009. Our net profit margin decreased slightly to 12.5% in 2010 from 12.8% in 2009 due, among other things, to the adjustment in upstream wholesale gas price.

Income tax expense

Income tax expense increased 34.6% to RMB409.8 million (US$62.1 million) in 2010 from RMB304.5 million in 2009 mainly due to the increase in profit before tax. See "– Certain Income Statement Items – Taxation". Our effective tax rate increased from 22.0% in 2009 to 22.6% in 2010. The increase was because the tax rate for natural gas industry was increased to 25% from 15% pursuant to the New Tax Law, which increase is to be phased in gradually over a period of five years. In 2009, the tax rate was 20%. This rate was increased to 22% for 2010.

Profit attributable to non-controlling interests

Profit attributable to non-controlling interests increased 40.6% to RMB388.1 million (US$58.8 million) in 2010 from RMB276.0 million in 2009. The increase was primarily due to increased profits of certain of our subsidiaries which had a greater proportion of non-controlling interests.

Profit attributable to owners of our Company

Due to all the above, profit attributable to owners of our Company increased 26.2% to RMB1,013.1 million (US$153.5 million) in 2010 from RMB802.9 million in 2009.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

The consolidated financial information for the year ended December 31, 2009 below (including information related to cost of sales, profit attributable to non-controlling interests and profit attributable to the owner of the Company) has been restated to account for a change in accounting policy to state our land and buildings at cost, less any accumulated depreciation and accumulated impairment losses. However, the consolidated financial information for the year ended December 31, 2008 presented below has not been restated to reflect the adoption of this new accounting policy. Therefore, cost of sales, profit attributable to non-controlling interests and profit attributable to the owner of the Company for 2009 and 2008 are not directly comparable. If the consolidated financial information for 2008 were to be restated, the restatement would, among other things, cause our gross profit, profit before tax and profit and total comprehensive income for 2008 to increase slightly. For a description of this change in accounting policy the effect of the restatement, please see "– Critical Accounting Policies – Change in Accounting Policy and Adoption of New and Revised Standards" and "Risk Factors – Risks Relating to Our Business – Our financial information for fiscal year 2008 has not been restated to reflect a change in accounting policy and adoption of certain new and revised standards and therefore certain line items are not directly comparable to our financial information for fiscal years 2009, as restated, and 2010."

Revenue

Revenue increased by RMB147.4 million, or 1.8%, to RMB8,412.9 million in 2009 from RMB8,265.5 million in 2008. This increase was primarily due to increases in revenue from sales of piped gas, vehicle gas refueling stations, sales of gas appliances and gas connection fees, partially offset by a decrease in revenue from distributions of bottled LPG.

Sales of piped gas

Revenue from sales of piped gas increased by RMB982.7 million, or 31.8%, to RMB4,077.5 million in 2009 from RMB3,094.8 million in 2008, primarily due to an increase in the volume of piped gas sold. Total sales volume of piped gas increased by 367,974,000 m^3, or 14.3%, to 2,939,832,000 m^3 in 2009 from 2,571,858,000 m^3 in 2008. Revenue from sales of piped gas represented 48.5% of our total revenue in 2009 as compared to 37.4% of our total revenue in 2008.

Distributions of bottled LPG

Revenue from distribution of bottled LPG decreased by RMB1,112.2 million, or 55.4%, to RMB897.1 million in 2009 from RMB2,009.3 million in 2008. This was principally as a result of a decrease in the volume sold from 599,567 tons of LPG in 2008 to 357,364 tons of LPG in 2009. The decrease in volume is in line with our strategy of substantially reducing our bottled LPG business given its low gross profit margin in order to focus our resources on our higher gross profit margin piped gas business. Revenue from sales of bottled LPG accounted for 10.6% of our total revenue in 2009 as compared to 24.3% of our total revenue in 2008.

Revenue from vehicle gas refueling stations

Revenue from our vehicle gas refueling stations increased by RMB136.5 million, or 20.6%, to RMB797.7 million in 2009 from RMB661.2 million in 2008. The increase was primarily due to an increase in the sales volume of CNG and LNG. Total sales volume of CNG increased by 53.0 million m^3, or 16.7%, to 370.0 million m^3 in 2009 from 317.0 million m^3 in 2008. The increase in sales volume was due to the addition of 34 operational vehicle gas refueling stations and the completion of the conversion of an additional 5,425 taxis and 267 buses into natural gas vehicles in 2009. Revenue from our vehicle gas refueling stations accounted for 9.5% of our total revenue in 2009 as compared to 8.0% of our total revenue in 2008.

Sales of gas appliances

Revenue from sales of gas appliances increased by RMB8.1 million, or 10.3%, to RMB86.8 million in 2009 from RMB78.7 million in 2008. The increase in revenue from sales of gas appliances was primarily due to a RMB8.5 million increase in sales of gas appliance revenues from Xinao Gas (Lianyugang).

Gas connection fees

Gas connection fees increased by RMB132.2 million, or 5.5%, to RMB2,553.8 million in 2009 from RMB2,421.6 million in 2008. The increase was to due to an increase in natural gas connections for residential households and for C/I customers and a slight increase in the average connection fee for residential households. Natural gas connections for residential households increased by 11.0% from 710,035 connections in 2008 to 788,281 connections in 2009; while natural gas connections for new C/I customers increased by 6.6% from 2,548 connections in 2008 to 2,715 connections in 2009. 75.1% of the gas connection fees in 2009 were derived from residential households compared to 76.8% of the gas connection fees in 2008, with the remainder of the fees derived from C/I customers. At the end of 2009, we had achieved a gas penetration rate for residential households of 32.4%, up from 27.0% at the end of 2008. Gas connection fees accounted for 30.4% of our total revenue in 2009 as compared to 29.3% of our total revenue in 2008.

Cost of sales

Cost of sales decreased by RMB146.3 million, or 2.4%, to RMB5,872.7 million in 2009 from RMB6,019.0 million in 2008, primarily due to a decrease in the purchase of LPG as a result of the implementation of our strategy of reducing sales to certain lower margin bottled LPG customers, partially offset by an increase in procurement costs for pipeline gas.

Gross profit

Gross profit increased by RMB293.7 million, or 13.1%, to RMB2,540.2 million in 2009 from RMB2,246.5 million in 2008, as a result of increased revenue from our gas connection fees and piped gas sales.

Our gross profit margin increased to 30.2% in 2009 from 27.2% in 2008. The increase was due in part to our strategy to substantially reduce the level of the low gross profit margin bottled LPG business, resulting in a 40.4% decrease in the volume of bottled LPG sold in 2009 as compared to 2008. This positive impact on our gross profit margin was partially offset by a change in our revenue structure in the form of gradual decreases in gas connection fee income as a percentage of our total revenue and the change in our revenue recognition policy for gas connection fee revenue for eight of our projects from the percentage of completion method to the amortization method since the second half of 2009.

Other income

Other income decreased 51.1% to RMB104.6 million in 2009 from RMB213.9 million in 2008, primarily as a result of a decrease of RMB83.2 million in gains on foreign exchange primarily from the translation of our US$-denominated 2012 Guaranteed Notes into Renminbi, our reporting currency, and primarily a decrease of RMB9.5 million in interest income.

Distribution and selling expenses

Distribution and selling expenses increased 21.7% to RMB159.0 million in 2009 from RMB130.7 million in 2008, primarily due an increase in employee salaries from promotion of our gas connection business. As a percentage of revenue, selling expenses were approximately 1.9% in 2009 compared to 1.6% in 2008.

Administrative expenses

Administrative expenses decreased 17.6% to RMB857.0 million in 2009 from RMB1,040.6 million in 2008, primarily as a result of the Company's cost control measures in response to the global financial crisis. During this period, the Company also implemented an enterprise resource planning system and installed new SAP business software to monitor and improve the efficiency of Company's cost control measures. As a percentage of revenue, administrative expenses were approximately 10.2% in 2009 compared to approximately 12.6% in 2008.

Other gains and losses

In 2009, there was a loss of RMB132.6 million compared to a gain of RMB22.4 million in 2008. The following are the components of other gains and losses:

	As of December 31,	
	2008	2009
	RMB'000	RMB'000
		(Restated)
Impairment loss reversed (recognized) on:		
– Property, plant and equipment	–	(12,801)
– Trade and other receivables, net	14,934	(57,106)
Gain (loss) on disposal of:		
– Property, plant, and equipment	10,880	(6,102)
– A subsidiary	–	(1,571)
– Prepaid lease payments	–	10,752
– An associate	–	5,023
Impairment of available-for-sale financial assets	(18)	–
Revaluation surplus (deficit) on property, plant and equipment	9,645	(9,344)
(Decrease) increase in fair value of investment properties	(13,022)	9,620
Loss on deregistration of jointly controlled entities	–	(7,967)
Write off other receivable	–	(54,258)
Fair value adjustment on interest-free advances to related companies of subsidiaries at initial recognition	–	(7,350)
Fair value adjustment on other receivables at initial recognition	–	(1,538)
Total other gains (losses)	22,419	(132,642)

Share of results of associates

Our share of results of associates decreased 31.0% to RMB5.1 million in 2009 from RMB7.3 million in 2008 primarily due to losses incurred relating to our Inner Mongolia project in which we hold a 15% equity interest.

Share of results of jointly controlled entities

In 2009, our share of results of jointly controlled entities increased 9.3% to RMB210.7 million from RMB192.8 million in 2008. The increase was primarily attributable to the growth of our Dongguan project during this period.

Finance costs

Finance costs decreased 13.8% to RMB328.4 million in 2009 from RMB381.0 million in 2008, due primarily to a decrease in interest expenses associated with our short-term debentures and discounted bills.

Profit before tax

As a result of the cumulative effect of the foregoing, profit before income tax increased 22.1% to RMB1,383.4 million in 2009 from RMB1,130.7 million in 2008. Our net profit margin increased to 12.8% in 2009 from 10.5% in 2008 due, among other things, to the implementation of our strategy of reducing sales to certain lower margin bottled LPG customers.

Income tax expense

Income tax expense increased 17.1% to RMB304.5 million in 2009 from RMB260.0 million in 2008 mainly due to a greater amount of taxable income. See "– Certain Income Statement Items – Taxation." Our effective tax rate decreased from 23.0% in 2008 to 22.0% in 2009. The decrease in the effective tax rate was primarily due to increased profitability of our project companies enjoying a lower tax rate.

Profit attributable to non-controlling interests.

Profit attributable to non-controlling interests increased 15.0% to RMB276.0 million in 2009 from RMB240.0 million in 2008. The increase was primarily due to increased profits of certain of our subsidiaries which had a greater proportion of non-controlling interests.

Profit attributable to owners of our Company

Due to all the above, profit attributable to owners of our Company increased 27.3% to RMB802.9 million in 2009 from RMB630.7 million in 2008.

Liquidity and Capital Resources

Our primary uses of cash have been, and are expected to be, the funding of operating and capital expenditures. We have funded, and expect to continue to fund, our operating and capital expenditures through operating cash flows (particularly revenue from gas sales which has become our major source of income), internal liquidity, equity and note issuances and bank and other loans. Our most recent note issuance was the issuance of RMB500 million corporate bonds in February 2011. Concurrent with this offering of Notes, we have also issued an irrevocable notice of redemption in respect of 100% of the aggregate principal amount outstanding of the 2012 Guaranteed Notes, which will be redeemed on June 28, 2011 at a redemption price equal to 100% of the aggregate principal amount plus a "make whole" premium and accrued and unpaid interest. See "Description of Other Material Indebtedness."

Our cash and cash equivalents as of December 31, 2008, 2009 and 2010 were RMB1,725.4 million, RMB2,712.7 million and RMB2,851.3 million, respectively. As of December 31, 2008, 2009 and 2010, our total debt was RMB5,403.1 million, RMB5,884.5 million and RMB6,262.9 million, respectively. Our net debt to total equity ratio (including non-controlling interests), was 67.9% in 2008, 49.4% in 2009 and 45.2% in 2010.

As of December 31, 2008, 2009 and 2010, we had net current liabilities of RMB1,074.3 million, RMB610.2 million and RMB2,409.8 million, respectively. These net current liability positions primarily reflect capital investments to expand the scale of our operations and distribution capability, including acquisitions of projects and the construction of fixed assets. Historically, net current liabilities have been offset as our projects have matured and begun generating positive cash flow. We cannot assure you that these projects will continue to generate positive cash flow to offset our net current liabilities.

As of December 31, 2010, we had secured credit facilities of approximately RMB3,405.0 million which remained unutilized.

Cash Flow

As we are a holding company with no material business operations, sources of income or operating assets of our own other than our interests in subsidiaries, our cash flow and, consequently, our ability to meet debt servicing obligations, is dependent upon the funds paid to us by our subsidiaries in the form of dividends, loans, advances or otherwise.

The following table presents selected cash flow data from our consolidated statements of cash flow for the three years ended December 31, 2008, 2009 and 2010:

	Year ended December 31,			
	2008	2009	2010	
	RMB'000	RMB'000	RMB'000	USD'000
		(Restated)		
Net cash from operating activities				
Operating cash flows before movements in working capital[(1)]	1,472,758	1,982,970	2,281,990	345,756
Net change in working capital[(2)]	206,465	496,710	864,220	130,942
Cash generated from operating activities	1,679,223	2,479,680	3,146,210	476,698
Total[(3)]	1,251,917	2,184,539	2,715,052	411,372
Net cash used in investing activities	(1,402,383)	(1,379,172)	(2,404,332)	(364,293)
Net cash (used in) generated from financing activities	182,365	181,936	(172,081)	(26,073)
Net increase in cash and cash equivalents	31,889	987,303	138,639	21,006

(1) Represents profit before tax as adjusted for items such as share results of associates and jointly controlled entities, gain on deemed acquisition of additional interest in a subsidiary, discount on acquisition of a subsidiary, exchange gain of guaranteed notes, impairment of available-for-sale financial assets, loss (gain) on disposal of and impairment loss on property, plant and equipment, gain on disposal of prepaid lease payments and of an associate, loss on disposal of a subsidiary, loss on deregistration of jointly controlled entities, (increase) decrease in fair value of investment properties, share-based payment expenses, revaluation deficit (surplus) of property, plant and equipment, depreciation of property, plant and equipment, impairment loss (reversal of impairment loss) on trade and other receivables, write off of other receivables, fair value adjustments on interest-free advances to minority shareholders and other receivables, amortization of intangible assets, release of prepaid lease payments, financial guarantee income, interest income and expenses, and deferred income released to profit or loss.

(2) Represents the movements in inventories, trade and other receivables, trade and other payables, amounts due from and to customers for contract work, amounts due from and to associates, amounts due from and to jointly controlled entities, amounts due from and to related companies, and deferred income received.

(3) Represents cash generated from operating activities, as adjusted to reflect interest received, interest paid and PRC enterprise income tax paid in the case of 2008. In the case of 2009 and 2010, the cash generated from operating activities is adjusted only for income tax paid.

Cash flows from operating activities

We recorded net cash from operating activities of RMB2,715.1 million for the year ended December 31, 2010. Our operating cash flows before movements in working capital were RMB2,282.0 million. The primary movements in our working capital were an increase in trade and other payables of RMB754.0 million, an increase in amounts due to customers for contract work of RMB99.9 million and a decrease in amounts due from associates of RMB75.6 million. These movements were primarily partially offset by an increase in trade and other receivables of RMB93.3 million and an increase in amounts due from customers for contract work of RMB65.5 million. In addition, our resulting cash generated from operating activities of RMB3,146.2 million was primarily offset by PRC enterprise income tax paid of RMB431.2 million.

We recorded net cash from operating activities of RMB2,184.5 million for the year ended December 31, 2009. Our operating cash flows before movements in working capital were RMB1,983.0 million. The primary movements in our working capital were a decrease in amounts due from customers for contract work of RMB253.9 million, an increase in trade and other payables of RMB116.4 million and an increase in amounts due to customers for contract work of RMB99.3 million. These movements were primarily partially offset by an increase in inventories of RMB30.9 million and a decrease in amounts due to related companies of RMB14.5 million. In addition, our resulting cash generated from operating activities of RMB2,479.7 million was primarily offset by PRC enterprise income tax paid of RMB295.1 million.

We recorded net cash from operating activities of RMB1,251.9 million for the year ended December 31, 2008. Our operating cash flows before movements in working capital was RMB1,472.8 million. The primary movements in our working capital were an increase in trade and other payables of RMB356.5 million, a decrease in amounts due from associates of RMB169.0 million and an increase in amounts due to customers for contract work of RMB160.0 million. These movements were primarily partially offset by an increase in trade and other receivables of RMB258.9 million and an increase in amounts due from customers for contract work of RMB159.4 million. In addition, our resulting cash generated from operating activities of RMB1,679.2 million was primarily offset by interest paid of RMB271.9 million and PRC enterprise income tax paid of RMB185.7 million.

Cash flows from investing activities

Net cash used in investing activities was RMB2,404.3 million for the year ended December 31, 2010. The net cash used in investing activities in 2010 was primarily attributable to our purchase of property, plant and equipment of RMB2,151.5 million, acquisition of 100% of the registered capital of Guangzhou Xinao Gas Co., Ltd. and 80% of the registered capital of Panjin Liaobin Shengtai Gas Co., Ltd. amounting to RMB211.3 million and an increase in prepaid lease payments of RMB184.0 million, partially offset by deferred income received of RMB259.1 million and dividends received from jointly controlled entitles of RMB88.8 million related to our project companies located in Dongguan, Zhuzhou, and Ningbo.

Net cash used in investing activities was RMB1,379.2 million for the year ended December 31, 2009. The net cash used in investing activities in 2009 was primarily attributable to our purchase of property, plant and equipment of RMB1,541.4 million, increase in prepaid lease payments of RMB85.5 million and our investments in jointly controlled entities of RMB131.6 million, partially offset by dividends received from jointly controlled entities of RMB80.9 million. Our investments in jointly controlled entities related to sales of piped gas and investment in gas pipeline infrastructure.

Net cash used in investing activities was RMB1,402.4 million for the year ended December 31, 2008. The net cash used in investing activities in 2008 was primarily attributable to our purchase of property, plant and equipment of RMB1,186.1 million, our investments in jointly controlled entities of RMB150.9 million and an increase in restricted bank deposits of RMB79.8 million, partially offset by dividends received from jointly controlled entities of RMB82.5 million and deposit received for the disposal of an associate of RMB75.0 million relating to our sale of a 40% equity interest in Xianyang Xinao Gas Co., Ltd. Our investments in jointly controlled entities related to sales of piped gas and investment in gas pipeline infrastructure.

Cash flows from financing activities

We had net cash used in financing activities of RMB172.1 million for the year ended December 31, 2010. The net cash used in financing activities in 2010 was primarily due to the repayment of bank loans of RMB1,875.9 million and amounts repaid to jointly controlled entitles of RMB437.0 million. These amounts were partially offset by new bank loans raised of RMB2,277.7 million.

We had net cash generated by financing activities of RMB181.9 million for the year ended December 31, 2009. The net cash from financing activities in 2009 was primarily due to new bank loans raised of RMB3,598.7 million and proceeds of RMB800.0 million from the issuance of short-term debentures. These amounts were partially offset by repayment of bank loans of RMB3,300.2 million and repayment of short-term debentures of RMB600.0 million.

We had net cash generated by financing activities of RMB182.4 million for the year ended December 31, 2008. The net cash from financing activities in 2008 was primarily due to new bank loans raised of RMB1,677.4 million and proceeds of RMB600.0 million from the issuance of short-term debentures. These amounts were partially offset by repayment of bank loans of RMB1,473.5 million and repayment of short-term debentures of RMB400.0 million.

Indebtedness

Borrowings

As of December 31, 2010, our total debt was RMB6,262.9 million (US$948.9 million) compared to total debt of RMB5,884.5 million as of December 31, 2009.

As of December 31, 2010, our total debt included U.S. dollar denominated bank loans and notes (including our 2012 Guaranteed Notes) amounting to US$375.0 million (RMB2,474.9 million), and Hong Kong dollar denominated bank loans of HK$13.4 million (RMB11.4 million). The remaining bank and other loans included in our total debt as of December 31, 2010 were Renminbi-denominated loans. Concurrent with this offering of Notes, we have issued an irrevocable notice of redemption in respect of 100% of the aggregate principal amount outstanding of the 2012 Guaranteed Notes, which will be redeemed on June 28, 2011 at a redemption price equal to 100% of the aggregate principal amount plus a "make whole" premium and accrued and unpaid interest. See "Description of Other Material Indebtedness."

In addition to the 2012 Guaranteed Notes, the RMB800.0 million short term debentures bear interest at fixed coupons. Our other U.S. dollar loans and the Hong Kong dollar mortgage loans for certain Hong Kong office properties bear interest at floating rates. The remaining Renminbi bank and other loans, which were granted to certain of our project companies to cover capital expenditures, working capital and operating expenditures, bear interest at fixed rate or at floating rate with reference to a benchmark rate, such as the interest rates announced by the PBOC.

The only debt that was secured as of December 31, 2010 (which included the Hong Kong dollar loans) were bank and other loans in amounts equivalent to RMB1,431.9 million. The secured loans were secured by pledge of property, plant and equipment, investment properties and rights to receive fee income of certain of our subsidiaries and jointly controlled entities. As of December 31, 2010, the net asset value of the assets securing the loans was RMB48.9 million.

As of December 31, 2010, our short-term loans amounted to RMB1,568.7 million.

As of December 31, 2010, we had secured credit facilities of approximately RMB3,405.0 million which remained unutilized.

Contingent Liabilities

As of December 31, 2010, we had outstanding guarantees issued to banks to secure loan facilities granted to an associate to the extent of RMB45.0 million compared to RMB30 million in 2009 for one to four-year loans, of which the amounts have been utilized at the end of 2010.

Capital Commitments and Contractual Obligations

As of December 31, 2008, 2009 and 2010, we had capital commitments of RMB45.4 million, RMB22.9 million and RMB85.6 million, respectively, from capital expenditures in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements. As of December 31, 2008, 2009 and 2010, we also had capital commitments of RMB32.4 million, RMB145.7 million and RMB68.6 million, respectively, related to investments in joint ventures. As of December 31, 2008, 2009 and 2010, we had other commitments amounting to RMB4.7 million, RMB10.8 million and RMB20.9 million, respectively, related to acquisition of land use rights in China.

The following table presents as of December 31, 2010, the scheduled maturities of our contractual obligations for debts and operating leases. The amounts included in the following table do not include future interest payments and are not discounted to take into account the time value of money.

	Payments due by period			
Contractual Obligations	**Total**	**Less than 1 year**	**After 1 year but within 5 years**	**More than 5 years**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Current debt obligations	1,568,742	1,568,742	–	–
Non-current debt obligations	2,567,632	–	1,836,188	731,444
Operating lease obligations[1]	115,235	16,235	40,866	58,134
Total	4,251,609	1,584,977	1,877,054	789,578

(1) Represents our commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises.

Capital Expenditures

Our capital expenditures were RMB2.2 billion in 2010, RMB1.6 billion in 2009 and RMB1.2 billion in 2008, and primarily consisted of expansion relating to the acquisition of property, plant and equipment, investments in energy management projects, acquisition of new projects and construction of vehicle gas refueling stations.

Our future capital requirements will include expenditures for similar activities. We expect to finance these capital requirements from cash flows from operations, internal liquidity, bank loans, bond issuances and the net proceeds received from the offering of the Notes. As discussed above, as of December 31, 2010 we had contractual commitments for capital expenditures of RMB85.6 million, primarily for purposes of acquiring property, plant and equipment. During the period from 2011 to 2015, we plan to invest approximately RMB8.0 billion to RMB10.0 billion in capital projects primarily for the construction of vehicle gas refueling stations, investments in new energy management projects and acquiring small or medium-sized projects.

After giving effect to the offering of the Notes, and taking into account our operating cash flows and bank borrowings, we believe we will have sufficient resources to meet our anticipated capital expenditure requirements during the 2011 fiscal year. See "Use of Proceeds." In order to finance our continued expansion, we may in the future consider public offerings or private placements of equity, debt or convertible securities. However, we cannot assure you that we will be able to raise additional capital to meet our capital expenditure requirements on terms acceptable to us or at all. See "Risk Factors – Risks Relating to Our Business – If we are unable to fund our substantial capital expenditure requirements on terms we deem acceptable, it may adversely affect our prospects and future operations."

Off-Balance Sheet Arrangements

We have no outstanding derivative financial instruments or off-balance sheet guarantees. In the ordinary course of our business, we enter into operating lease commitments, capital commitments and other contractual obligations, as discussed above. These commitments and obligations are disclosed in our consolidated financial statements in accordance with HKFRS.

Market Risks

Our operations expose us to foreign currency exchange risk, interest rate risk, natural gas price risk and equity price risk. We currently do not hedge against financial risks (including market risks) through the use of either derivatives or forward delivery contracts.

Foreign Currency Exchange Risk

Our reporting currency is the Renminbi, and most of our transactions are denominated in Renminbi. However, we have certain U.S. dollar denominated bank loans and notes, and a Hong Kong dollar bank loan outstanding. As of December 31, 2010, US$375.0 million of our U.S. dollar bank loans and notes were outstanding, while HK$13.4 million of our Hong Kong dollar denominated loans were also outstanding as of the same date. We also had U.S. dollar and Hong Kong dollar denominated assets equivalent to RMB52.6 million at the end of 2010. Furthermore, the Notes will be denominated in U.S. dollars. Accordingly, we are impacted by fluctuations in the exchange rate between the Renminbi and the U.S. dollar and Hong Kong dollar, respectively. At the end of 2010, assuming all other variables are held constant, an unfavorable 5% change in the Renminbi-U.S. dollar exchange rate would have resulted in a decrease in profit for 2010 of RMB122.7 million, while an unfavorable 5% change in Renminbi-Hong Kong dollar exchange rate would have resulted in an increase in profit for 2010 of RMB580,000.

Recent changes in currency policy by the People's Bank of China have resulted in the Renminbi appreciating against the U.S. dollar by approximately 26.7% from July 21, 2005 to April 19, 2011. The Renminbi exchange rate could fluctuate widely against the U.S. dollar, the Hong Kong dollar or any other foreign currency in the future. Since our income and profits are primarily denominated in Renminbi, any appreciation of Renminbi will increase the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Conversely, any depreciation of Renminbi will decrease the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. We currently do not hedge against our foreign exchange rate risk. See "Risk Factors – Risks Relating to Doing Business in PRC – Fluctuations in the value of Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries" for a description of the risks relating to fluctuations in the value of the Renminbi.

Interest Rate Risk

Our mix of fixed-rate and floating rate instruments exposes us to both fair value interest rate risk and cash flow interest rate risk. Our exposure to fair value interest rate risk is not limited to our fixed-rate bank and other loans, short-term debentures and 2012 Guaranteed Notes, but also extends to non-current amounts due from our jointly controlled entities, our associates and related companies. As of December 31, 2008, 2009 and 2010, our fixed-rate debt amounted to RMB2,360.6 million, RMB2,872.3 million and RMB2,899.1 million, respectively, for which interest is charged at fixed rates ranging from 3.38% to 7.12%. As of December 31, 2008, 2009 and 2010, our floating rate debt amounted to RMB3,042.5 million, RMB3,012.2 million and RMB3,363.8 million. Based on year-end 2010 variable rate debt levels, a 27 basis point change in interest rates would have resulted in a decrease or increase in profit for 2010 of RMB8.7 million. We currently have not used any interest rate swaps to hedge our exposure to interest rate risk but may enter into interest rate hedging instruments in the future to hedge any significant interest rate exposure should the need arise.

Natural Gas Price Risk

We are exposed to price risk with respect to our purchases of natural gas from our suppliers. This risk has the potential of having a significant impact on our cost of sales, and consequently on our profitability. While prices of natural gas have been fixed at stable prices by central and local governments in China and have not fluctuated materially or with a lot of frequency, we cannot assure you that such fluctuations may not arise from time to time. We currently have take-or-pay or other long-term purchase contracts with three major upstream suppliers, PetroChina, Sinopec and CNOOC, or their distributors, in order to secure long-term gas supply to our operational locations. Although these purchase contracts set forth formulas for the calculation of the purchase price for such natural gas supply, the final purchase price is set by the policies of the NDRC.

Equity Price Risk

Our exposure to equity price risk is primarily linked to our investment in unlisted equity securities with a carrying value of RMB14.4 million in 2010 as compared to RMB14.1 million in 2009 and RMB14.0 million in 2008, which securities were classified as available for sale investment but are stated at cost less impairment.

Non-GAAP Financial Measures

We use EBITDA to provide additional information about our operating performance. We calculate EBITDA by adding finance costs, depreciation and amortization expenses to profit before tax and subtracting interest income and gain arising from changes in fair value of investment properties. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to incur and service debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to owners of our Company or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, finance costs or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. The following table provides a reconciliation of profit before tax, the most relevant HKFRS term, to EBITDA:

	Year ended December 31,			
	2008	**2009**	**2010**	
	RMB	**RMB**	**RMB**	**US$**
	(in millions)			
Profit before tax	1,130.7	1,383.4	1,811.0	274.4
Finance costs	381.0	328.4	310.9	47.1
Less interest income	(30.3)	(20.8)	(26.2)	(4.0)
Less loss/(gain) arising from changes in fair value of investment properties	13.0	(9.6)	(3.4)	(0.5)
Net depreciation and amortization	312.9	388.5	454.6	68.9
EBITDA	1,807.3	2,069.9	2,546.9	385.9

Overview of the Global Natural Gas Market

Global Natural Gas Consumption

Global natural gas demand has grown rapidly in recent years, with consumption growing over four times from 1965 to 2009. According to the BP Statistical Review of World Energy June 2010, global natural gas demand grew from 232.6 billion cubic feet per day, or bcf/d, in 2000 to 284.5 bcf/d in 2009, representing a CAGR of 2.3%. Additionally, the BP Statistical Review of World Energy June 2010 forecasts global natural gas demand to continue to grow faster than any other energy source, reaching 519.6 bcf/d by 2030, representing a CAGR of 2.91% over the period from 2009.

The growth in global natural gas consumption is driven primarily by non-Organization for Economic Co-operation and Development and developing country economies. Similar to oil consumption, China is the primary contributor to natural gas consumption growth. According to the BP Review, China's gas consumption has grown from 2.4 bcf/d in 2000 to 8.6 bcf/d in 2009, representing a CAGR of 15.4%. In contrast, gas consumption in the U.S. and Russia grew at CAGRs of -0.2% and 1.1% over the same period, respectively.

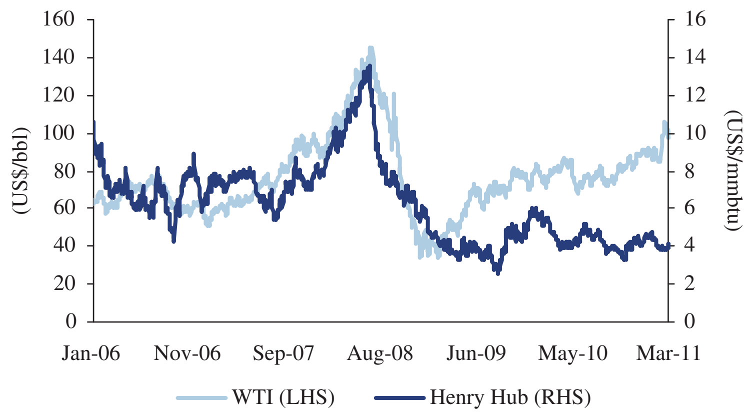
Global Natural Gas Supply

Though global gas production fell by 2.1% to 289.0 bcf/d in 2009, the U.S. recorded a 3.5%, or 2.0 bcf/d increase in gas production in 2009. This increase was largely attributed to the discovery of massive unconventional (shale) natural gas reserves over the last decade. In fact, unconventional gas resources are expected to play an increasingly important role in future gas supply throughout the world. In China, for instance, while natural gas is still considered to be a relatively untapped fuel compared to oil, the country has a significant amount of unexplored non-conventional gas resources such as coal bed methane, or CBM, as well as shale gas. However, currently both the CBM and shale gas industries are still in early stage of development in China, as they are both capital and technology intensive. The PRC government has made CBM exploitation a priority, with the 11th five year plan issued by the NDRC in 2006 calling for CBM output to reach 350 bcf, 1.1 trillion cubic feet, or tcf, and 1.8 tcf in 2010, 2015 and 2020, respectively.

Global Natural Gas Prices

The downturn in the global economy and subsequent recovery has resulted in some volatility in the oil and gas industry in the past two years. The Henry Hub natural gas prices have witnessed a recent decoupling from the WTI crude oil prices. Prior to the global recession, Henry Hub natural gas prices were positively correlated with WTI oil prices, evidenced by Henry Hub natural gas prices peaking in July 2008 at US$13.31 per million cubic feet, or mcf. Following the peak, Henry Hub natural gas prices decreased sharply as the global economy slowed down. As oil prices slowly rebounded in 2009 and 2010, Henry Hub natural gas prices continued to decrease to US$1.83/mcf, in September 2009. The decoupling of the oil and natural gas price relationship is largely due to the oversupply of unconventional sources such as shale in North America, CBM in Australia and planned LNG projects. Henry Hub natural gas prices have rebounded slightly, reaching US$3.83/mcf in March 2011.

Figure 1: Historical WTI and Henry Hub Price (2006 – 2011YTD)



Source: Bloomberg.
Note: Commodity price as of March 17, 2011.

Overview of the Chinese Natural Gas Market

As a result of insufficient oil production capacity, growing concerns about coal pollution, and the rising oil price, China has been actively searching for alternative sources of energy, contributing to the strong growth in natural gas consumption in recent years. Furthermore, China's plan to achieve a 40% to 45% reduction of carbon dioxide emissions per unit of GDP by 2020 is also driving energy consumption towards cleaner fuels such as natural gas. Natural gas has a much lower density than air, which makes the use of natural gas relatively safer than LPG as the chance of explosion is reduced. Currently, natural gas accounts for approximately 3.7% of China's energy consumption. In connection with the 12th Five-year Plan, the PRC government targets to increase this proportion to 8.3% by 2015, with its continuous expansion of natural gas infrastructure.

As of the end of 2009, China had proven natural gas reserves of 2.46 trillion cubic meters, which accounted for approximately 1.3% of the world's total reserve. China's natural gas reserve life as of end of 2009 was 28.8 years, based on 2009 production levels. The majority of natural gas reserves are located inland in western and northwestern China, which requires infrastructure to connect gas supply to demand areas, largely located in the eastern part of China. As the PRC government has been focused on the development of a nationwide piped gas delivery system and several cross-border pipelines, such as the West-to-East Pipelines, Burma-to-China and Russia-to-China pipelines, the geographical mismatch between gas demand and supply should be gradually minimized and domestic natural gas supply and consumption should increase significantly.

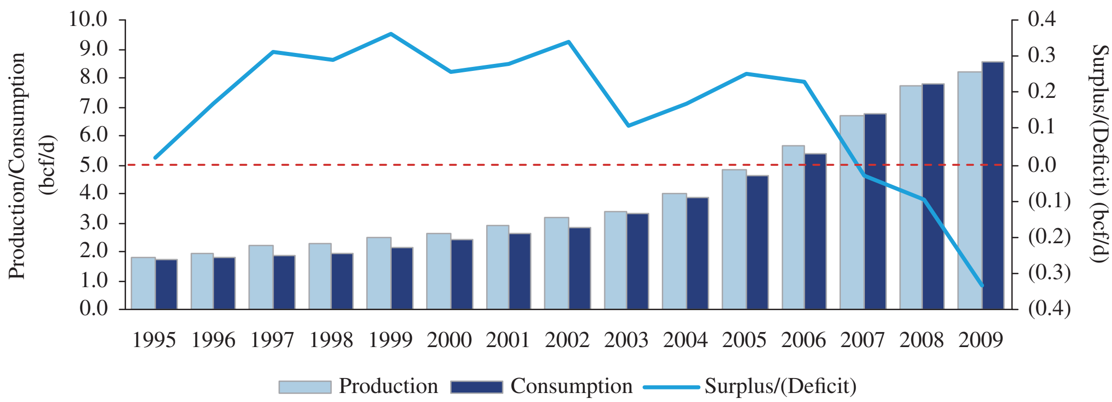
Natural Gas Consumption and Production in China

According to the BP Statistical Review of World Energy June 2010, natural gas consumption in China has grown from 2.4 bcf/d in 2000 to 8.6 bcf/d in 2009, representing a CAGR of 15.4%. From 2009 to 2010, natural gas consumption in China increased by approximately 24.0%, reaching 10.6 bcf/d in 2010, according to the NDRC. The main driver of this increase in energy consumption is the strong GDP growth that China has experienced over the last two decades. According to the International Monetary Fund, or IMF, China's GDP has grown from RMB7.8 trillion in 2000 to RMB25.5 trillion in 2009, representing CAGR of 14.0% in nominal terms. As this growth is expected to continue, this should further drive increase in energy demand in China.

On the other hand, natural gas production in China has increased from 2.6 bcf/d in 2000 to 8.2 bcf/d in 2009, representing a CAGR of 13.6%. From 2009 to 2010, natural gas production increased by 10.9%, reaching 9.1 bcf/d in 2010, according to the NDRC. China is expected to increase quantities of LNG imports to satisfy growing domestic natural gas demand. From 2009 to 2010, imported LNG volumes, as an additional source of gas supply, increased 75%.

Going forward, according to the 12th Five year plan set by the PRC government, natural gas consumption in China is expected to reach 25.1 bcf/d in 2015, representing a CAGR of 19.6% from 2009. On the supply side, natural gas production is expected to reach 14.5 bcf/d, representing a CAGR of 9.9% from 2009, with the remaining demand to be satisfied through imported natural gas.

Figure 2: China Natural Gas Supply and Demand



Source: BP Statistical Review of World Energy June 2010

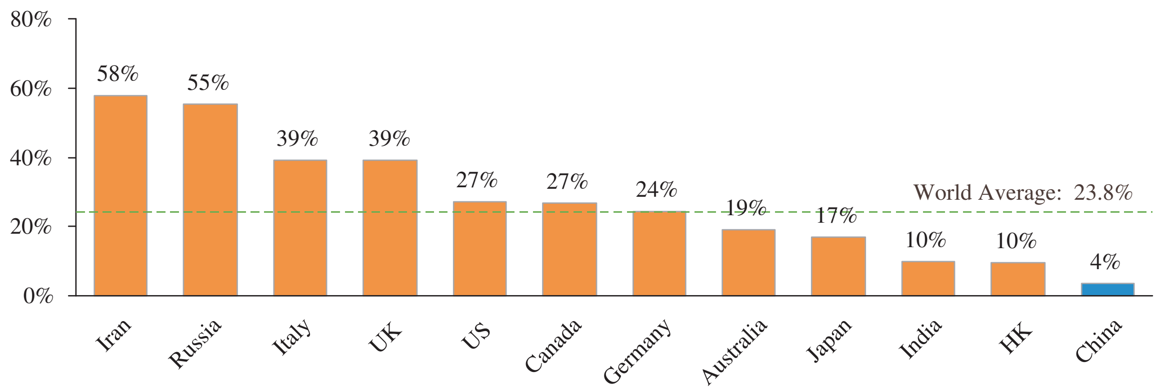
In China, natural gas consumption is primarily from four sectors: city gas, industrial fuel, power generation, and chemicals. In 2007, after taking into account the social, economic, and environmental benefits of natural gas, the PRC government classified natural gas usage into four categories; prioritized, allowed, restricted and prohibited. Given the growing natural gas demand from residential households, city gas was classified under the prioritized category by the PRC government. Going forward, as the penetration rates increase and gas supply infrastructure improves in China, city gas is expected to remain a key contributing sector for China's natural gas demand.

Historically, the industrial and chemical sectors have been two major consumers of natural gas in China. However, with the PRC government reviewing its priority policy and restricting natural gas usage as feedstock for certain industrial and chemical production that fall into the restricted and prohibited categories, demand growth from these two sectors are only expected to increase moderately in the future.

The power generation industry has been developing rapidly over the past decade in China to meet rising electricity demand. While China has historically relied primarily on electricity generated from coal-fired power plants, in recent years, there has been increased focus on using natural gas, as well as hydropower and nuclear.

Overall, the natural gas penetration rate in China, defined as natural gas consumption volume divided by total energy consumption, is still relatively low, compared to other peer countries. Currently, the natural gas penetration rate in China is only 3.7%, substantially lower than the world average penetration rate of 23.8%. This low penetration rate affords plenty of room for China to increase its natural gas consumption going forward, as the country's energy structure continues to shift.

Figure 3: Natural Gas Penetration Rate Comparison Between China and Other Countries



Source: BP Statistical Review of World Energy June 2010

China is more resourceful in both conventional gas (natural gas) and non-conventional gas (including CBM and shale gas) than oil. To meet the growing demand for natural gas, apart from increasing domestic gas production, China is aggressively importing long-distance piped gas from nearby gas-rich areas such as central Asia, Myanmar, and Russia, as well as LNG from Qatar, Australia, and Malaysia. The PRC government is planning cross-border, long-distance pipelines as well as having a number of LNG terminals under construction or in the planning stage. Furthermore, the PRC government is also focused on developing CBM and shale gas, providing additional sources of future gas production to meet growing gas consumption.

The PRC government is also focused on extending the national pipeline network. As part of its initiative to accelerate the conversion to "clean" fuels, the PRC government in its five-year plan for 2001 to 2005 established a nationwide framework for piped natural gas. The framework comprises plans for five major pipelines that will connect the eastern, western, southern, northern and central parts of the country.

One of the major pipeline construction projects is the "West-East Pipelines Project," which commenced gas supply in 2003. The West-East Pipelines cover the PRC's most developed provinces and one municipality. The project is expected to give rise to a substantial market of natural gas consumers in cities stretching from Xinjiang to Shanghai. During 2010, the PRC government commenced operation of (i) the western section and part of the eastern section of the West-East Pipeline II, with a designed capacity of approximately 40 billion m^3 per year; (ii) the Sichuan-East Pipeline, with a designed capacity of approximately 12 billion m^3 per year; and (iii) the Shaanxi-Beijing Pipeline, with a designed capacity of approximately 15 billion m^3 per year. In addition, there will also be significant increases in natural gas supplies in the near future following the commencement of gas supply by other gas sources including the Zhong-Wu Pipelines and the LNG terminals to be built along the coastal area in China, including LNG receiving terminals in Jiangsu and Liaoning with a capacity of 3.5 million and 3.0 million tons per year, respectively, which are sourced from Qatar and Australia, respectively, that will be put into operation in 2011.

As natural gas infrastructure is critical to increase gas supply, China has invested substantially in developing a nationwide natural gas network to facilitate consumption. Total installed pipeline capacity has grown at a double-digit rate nearly each year since 2003. Moreover, the PRC pipeline industry has experienced breakthroughs in 2009 as new trunk line construction jumped 155% from 3,804 km in 2008 to 9,700 km in 2009. With a concentration of trunk line construction projects from 2010-2015, it is expected that pipeline construction in China will continue to be driven by natural gas going forward. Currently, around 10 natural gas pipeline network projects are under construction or in the planning stage.

China's Natural Gas Industry Value Chain

In general, the entire value chain of the oil and gas industry is divided into three major components: upstream, midstream and downstream.

The upstream operations include the exploration for potential underground or underwater oil and gas reserves and resources, drilling of exploratory wells, and subsequently operating the wells that recover and extract crude oil and/or natural gas to the surface. China's upstream market is dominated by three key state-owned oil and gas companies: PetroChina, Sinopec and CNOOC. PetroChina is the largest among the three by proved reserves and net production.

The midstream industry mainly includes the initial processing and storage of crude oil and natural gas, as well as transportation of crude oil and natural gas through means such as pipelines, trucking and tankering or in the form of LNG. The PRC pipeline industry is dominated by PetroChina, which owns approximately 70% of China's total pipeline length. The remaining pipelines are mainly owned by other natural gas pipeline operators.

The downstream sector includes natural gas distribution. Natural gas distribution companies, such as us, purchase gas from upstream oil and gas companies and distribute it to end-user customers through various city gas pipeline infrastructures (including the main, intermediate and branch pipelines, as well as numerous processing stations). These gas distribution companies, after being granted a concession right for a city or region, usually will have exclusive rights to supply natural gas in the designated area for an extended period of time.

Competitive Landscape in China

There are several major natural gas operators competing in China's gas distribution industry, comprised of privately controlled, non-government affiliated companies and also state-owned companies. Once a gas distribution company has successfully obtained an exclusive right or right of first refusal in a city gas project, the company faces little or no competition from other piped gas distribution companies in that locality during the concession period.

Process of Obtaining City Gas Projects in China

In China, pursuant to the Measures for the Administration of Concessions for Urban Public Utilities (2004), city gas projects must be proposed by the department in charge of urban public utilities and approved by the local government. The selection of investors or operators for these city gas projects must be carried out through a public tender process. In practice, however, many local governments have enacted their own rules to authorize direct private negotiation for city gas projects and investors may acquire direct or indirect interests in existing concession holders through private negotiation when the target is not a state-owned asset company. During a public tendering process, local city governments will tender a certain percentage of the gas distribution business in the city project to several city gas distributors, after which one distributor is selected. The city gas distributors prepare and submit detailed gas project proposals to the local government and commence negotiations on major issues such as the granting of exclusive rights to supply gas to that location, proposed connection fees and gas usage charges and whether any tax and other concessions or favorable policies would be granted by the local government.

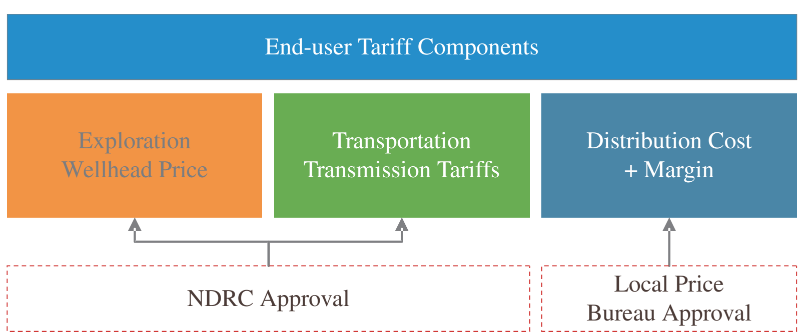
During private negotiations, a gas distributor can directly negotiate with the local government to secure the city gas project. Although some local governments have enacted rules authorizing direct negotiation of a concession project, private negotiations usually only occur when there is no state-owned gas pipeline company in the city. Upon successful tendering or negotiation, the gas distribution company acquires exclusive concession rights to distribute gas in the designated city project area for a fixed period, usually 30 years. Then it builds main pipeline networks and branch pipeline networks to connect gas to residential and C/I customers. In addition, the gas distributor often conducts a gas refuelling business by supplying gas to the automobile owners via numerous CNG refueling stations in the city it operates. Sometimes the companies are able to extend their concession areas further, as urbanization increases, and as the city planning bureaus extend their pipelines to the newly included areas. There are still several large city gas projects operated solely by the local governments, which are still open to participation from private gas distribution companies.

Additionally, gas distribution companies that have parent companies also engaged in the gas distribution business, can increase their project portfolio as the parent companies inject projects that have been acquired and/or developed at the parent-level into their subsidiaries.

Gas distribution companies typically generate revenue from gas sales to residential and C/I customers, and connection fees from residential and C/I customers. Connection fees are charged from residential customers on a "per connection" basis and C/I customers on a "daily maximum capacity" basis for connection to a piped gas network.

Natural Gas Regulation and Pricing Mechanism in China

Natural gas raw material costs consist of two parts: wellhead prices and transportation costs.



Both cost components are determined by the NDRC in China. The NDRC is a macroeconomic management agency under the State Council, which studies and formulates policies for economic and social development, maintains a balance of economic aggregates and guides the overall restructuring of the economic system.

Wellhead prices are divided into three categories: industrial use, fertilizer use and residential use. Wellhead for fertilizer and residential use are fixed, while prices for industrial use may vary up to 10% above the set benchmark price. Wellhead prices have been adjusted in December 2005 and November 2007. Most recently, the NDRC announced a wellhead gas price hike of RMB0.23/m^3 effective from June 1, 2010, a 24.9% increase on average. The NDRC also announced the abolishment of the two-tiered pricing system which was created when China last increased gas prices in 2007. The previous two-tiered pricing system meant that wellhead and wholesale price increases would apply to industrial users but not residential and fertilizer users. However, the June 2010 price increase was applicable to both industrial, as well as, residential and fertilizer users.

China's natural gas prices have historically been kept artificially lower than global natural gas prices. This has resulted in a supply-demand imbalance, as domestic oil and gas producers can sell crude oil at a higher price than that of natural gas, and inefficient use of natural gas supply. The recent wellhead price increases by the NDRC have brought domestic gas prices closer to international prices.

In terms of transportation cost, it is set according to the distance of transportation. The further away the target city from the gas wellhead, the higher the transportation cost.

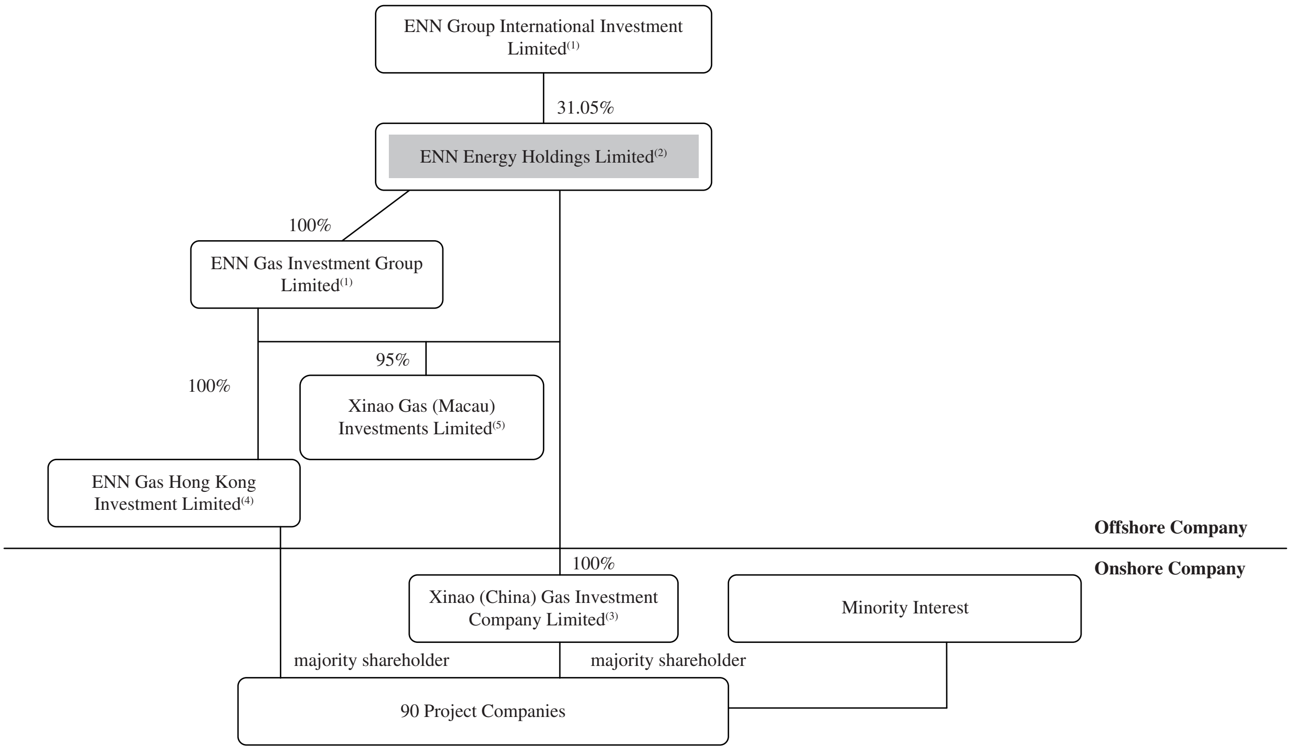
City gas distribution costs are set by local pricing bureaus, rather than the PRC central government, and can vary significantly between cities. City gas distributors buy natural gas at city-gate prices (wellhead price plus transportation cost) determined by the NDRC and sells at prices set by the local governments. Typically, there is a time lag for a distributor to pass through the cost hike to residential users, as approval from the local pricing bureau is required through a public hearing. For C/I users, the time lag to pass the cost hike is usually shorter than that for residential users as selling prices to C/I users are often based on contract terms. These contract terms are typically based on an indicative price set by local governments that is adjustable within a negotiated range, which can be renegotiated faster after wellhead price increases.

At the end of 2006, Beijing city's pricing bureau approved the implementation of a gas price-linking mechanism. Subsequently, a number of other cities have also adopted the same downstream pass-through mechanism. Under the new policy endorsed by the Beijing Municipal Commission of Development and Reform, city gas companies are able to bypass the public hearing process required for price adjustment for residential users, by adjusting retail price concurrently with city-gate gas prices based on a specified formula.

Connection fees for each project are based on agreements with the local governments and subject to final approval from the local state pricing bureaus. Depending on a city project's penetration rate, the local government could consider eliminating or modifying the connection fee system. In December 2006, the connection fee structure for gas connection pipelines in Guangdong was changed. The fee structure has been changed to comprise two parts: construction fee and capacity fee. The construction fee is collected when the connection is made, and is paid by the property developer and borne by residential users, whereas the capacity fee is collected once the connection is made and amortized over the lifetime of the gas service to residential users. The fee structure largely remains the same for gas distribution companies in Guangdong.

CORPORATE STRUCTURE

The following chart sets forth our simplified corporate structure as of the date of this offering memorandum:



(1) Companies incorporated in the British Virgin Islands.

(2) The Company; incorporated in the Cayman Islands and listed on the Main Board of the Hong Kong Stock Exchange.

(3) A company incorporated in China.

(4) A company incorporated in Hong Kong.

(5) A company incorporated in Macau.

Overview

We are one of the largest privately-owned piped gas operators in China. Our principal business is the investment in, and the construction, operation and management of, gas pipeline infrastructure, the sale and distribution of piped gas and bottled LPG and the operation of vehicle refueling stations in China. We are also involved in the sale of gas appliances and equipment, the production of stored value card gas meters, the provision of repair, maintenance and other services in connection with gas supply and energy management services that assist our customers in optimizing energy usage.

We commenced operations in 1993 and have since developed into one of the leading privately owned gas operators in the PRC piped gas industry. As of the date of this offering memorandum, we had a total of 90 operational locations. We operate our piped natural gas distribution infrastructure on an exclusive basis, for periods ranging from 20 to 30 years, in cities and urban areas located in 15 provinces, municipalities and autonomous regions. In April 2010, we also acquired our first international pilot project in Vietnam through a joint venture with PetroVietnam to develop piped gas and vehicle gas refueling businesses.

We typically apply for and obtain exclusive rights to distribute piped natural gas from the local governments in China. We may also acquire exclusive rights by entering into joint-ventures with existing local piped gas distributors. In addition, we construct and maintain city piped gas networks in locations in which we have acquired exclusive rights to supply piped gas. We charge connection fees from residential customers on a "per connection" basis and C/I customers on a "daily maximum capacity" basis for connection to our piped gas network. We receive gas usage charges from connected customers based on the tariffs set by the local governments.

We intend to grow organically by increasing the penetration rates and the number of connected customers for our 90 existing operational locations while continuing to acquire new projects in China, with a particular focus on the commercial and industry zones of emerging cities. In 2008, 2009 and 2010, we secured four, seven and eleven new projects, respectively, in China, which added an urban connectible population of approximately 0.8 million, 1.4 million and 2.7 million, respectively to our total connectable urban population as of December 31, 2010. As the projects in our operational locations continue to mature, we have become less reliant on one-time gas connection fees and sales of piped gas have increased as a proportion of our revenue, creating a more stable source of recurring revenue.

For the three years ended December 31, 2008, 2009 and 2010, our audited consolidated revenue was approximately RMB8,265.5 million, RMB8,412.9 million and RMB11,215.1 million (US$1,699.3 million), respectively, and our audited consolidated net profit was approximately RMB870.7 million, RMB1,078.9 million and RMB1,401.2 million (US$212.3 million), respectively. As of December 31, 2010, our audited consolidated total assets were approximately RMB19,639.5 million (US$2,975.7 million) and our shareholders' funds were approximately RMB6,031.4 million (US$913.9 million).

Our shares were listed on the GEM on May 10, 2001 and were transferred to the Main Board of the Hong Kong Stock Exchange (stock code: 2688) on June 3, 2002. Based on the closing price of our shares on the Hong Kong Stock Exchange on April 28, 2011, our market capitalization was approximately HK$27.9 billion (US$3.6 billion).

Competitive Strengths

We believe that our position as a leading piped gas operator in China is largely attributed to the following competitive strengths:

Well-positioned in the fast growing natural gas market in China

We were one of the first privately-owned companies to invest in the piped gas industry in China. This early market entry allowed us to acquire exclusive rights to develop piped gas distribution projects in desirable, high-growth locations at a relatively low cost. Since the commencement of our operations in 1993, we have expanded our coverage to 90 operational locations in 15 provinces, municipalities and autonomous regions across China. This extensive geographical coverage has resulted in significant brand recognition and has provided a stable foundation for us to continue to grow our operations in a cost effective manner and to take advantage of China's continued economic development, urbanization and improvement in living standards, which is expected to result in further growth in China's downstream natural gas market. According to the BP Statistical Review of World Energy June 2010, natural gas consumption in China has grown from 2.4 billion cubic feet per day in 2000 to 8.6 billion cubic feet per day in 2009, representing a CAGR, of 15.4%. Even with such strong growth, natural gas currently accounts for approximately only 3.7% of China's energy consumption. Under the 12th Five-year Plan, the PRC government targets to increase this proportion to 8.3% by 2015, with its continuous expansion of natural gas infrastructure. Our expansion in the natural gas market will be bolstered by the PRC government's stated intention to accelerate a transition to cleaner burning fuels such as natural gas in order to reduce harmful emissions and to tap domestic gas resources as one of the substitutes for domestic coal, coal gas and imported oil.

Strategic operational locations with strong growth potential

Since 1993, we have engaged in selective expansion of our operational locations across China, while taking into account the strategic value of each individual project to our overall expansion strategy. We have targeted locations that are primarily located in cities with established commercial and industry zones (i.e., significant presence of C/I customers and relatively high average income households), have high density urban population or high growth potential and relatively easy access to major natural gas supply networks, such as the West-East and Zhong-Wu Pipelines. To better allocate our natural gas resources and ensure steady natural gas supply, we typically cluster our piped gas projects around major natural gas pipelines and have constructed pipelines between our projects to form a cohesive gas supply network. Because we selectively expand into areas where both demand for and supply of natural gas is strong, our projects typically generate positive cash flows quickly, allowing us to maintain our rapid growth.

Upon obtaining a concession right for a city or region, we typically have exclusive rights to supply gas in the designated area for a concession period of 20 to 30 years. Upon the expiration of such concession right, we also have the right of first refusal to extend our franchise period. In the case of joint ventures, we typically have the right of first refusal to purchase the interest of our joint venture partners upon expiration of the joint venture agreement or in the event they wish to exit the joint-venture project. Once we have successfully obtained an exclusive right, we face little or no competition from other piped gas distribution companies in that locality during the concession period. The relatively low penetration rate in residential households across our operational locations also represents significant growth potential for us. As of December 31, 2010, the overall piped gas penetration rate of residential households in our operational locations in China was only 36.0%. Based on our experience, however, piped gas penetration rates of residential households in certain PRC cities can reach levels as high as 80% to 90%. As of December 31, 2010, C/I customers accounted for 71.5% of the total volume of our sales of piped gas, but only accounted for 24.6% of our gas connection fees during the same period, which indicates significant room for growth in our C/I customer base. We believe that continued urbanization, economic development and expansion of pipeline networks, together with the strong support of the PRC government to utilize natural gas and the increased receptiveness of natural gas among consumers as a more cost-effective alternative fuel, will help us achieve increased penetration rates and installed designed daily capacity of C/I customers in our operational locations and expand into new operational locations. Because of our extensive experience, track record for safety and reliable piped gas supply to end-users, we believe we are well-positioned to continue to obtain exclusive rights to supply gas to new operational locations.

Diversified project portfolio and stable cash flow

We currently have 90 operational locations across 15 provinces, municipalities and autonomous regions in China. Some projects are strategically located along the natural gas pipelines and near LNG receiving terminals, which facilitates access to supplies of natural gas. We also have a diversified customer base including both residential customers from existing and new property developments and C/I customers across various industries . In 2010, 75.4% and 24.6% of our natural gas connection fees came from residential customers and C/I customers, respectively. During the same period, residential and C/I customers represented approximately 16.0% and 71.5%, respectively, of the total volume of our sales of piped gas, with an additional 12.5% attributed to sales of natural gas through our vehicle refueling stations. We have continued to grow our portfolio of both residential and C/I customers to strengthen our income sources and, in 2009 and 2010, we provided new connections for 788,281 and 875,744 residential households, respectively, increasing by 11.1% from 2009 to 2010. In addition, the total installed designed daily capacity of C/I customers has grown steadily year-on-year from 9,009,892 m^3 in 2008 to 17,649,198 m^3 in 2010, representing a CAGR of 40.0%. Over time, as more consumers convert to gas, we believe a large portion of our gas connection fees will come from connecting to existing property developments in our operational locations.

As we face little or no competition from other piped gas distribution companies in the operational locations in which we have secured exclusive rights to distribute natural gas, we are able to enjoy steady cash flow from the initial connection fees charged to residential and C/I customers for connection to our piped gas network and subsequent sales of piped gas in these regions. In particular, connection fee income from projects with a low natural gas penetration rate and recurring piped gas sales from projects with a strong C/I customer base provide strong operating cash flows to finance our capital investments and reduce our requirements for external financing. Moreover, as the retail price of piped natural gas for residential and C/I customers is set by local pricing bureaus in that particular region, typically with reference to changes in the upstream or downstream supply cost, we are often able to pass through increases in wellhead gas costs to our residential and C/I customers.

Clear expansion strategy with low risk profile

Our strategy for selecting new operational locations is focused on evaluating several key factors and conducting extensive feasibility studies on the target locations in order to assess the project's potential return on investment to our Company. Our current strategy is to focus on the commercial and industry zones of emerging cities. Recently, we have also begun to expand our business outside of China by entering into a joint venture with PetroVietnam to develop our piped gas and vehicle gas refueling station businesses in Vietnam, starting in the more economically developed cities, including Hanoi, Ho Chi Minh City and Danang. Some of the factors we consider when selecting a new operational location include, but are not limited to, the size and concentration of the population, the likely level of connection fees and gas usage charges and whether we can obtain exclusive operational rights and preferential tax rates and governmental fees. This expansion strategy sets clear criteria to help us identify operational locations which are relatively lower risk and which have high potential for growth in natural gas consumption. Our experience and track record of expansion to 90 operational locations across China has strengthened market recognition of our brand, reinforced our credibility with local governments and end users and provided a strong portfolio of cash flow-generating projects which is attractive to lenders and assists us in negotiating competitive financing terms. We believe that our ability to obtain both domestic and international financing gives us a competitive advantage over some other local competitors in China who may only have access to domestic funding, the availability and costs of which have been affected recently by the credit-tightening measures introduced by the PRC government.

Proven track record and experienced management team

We have been operating in the piped gas industry in China for more than 18 years and have a proven track record in business growth, profitability, customer service and safety. We have developed strong working relationships with local governments and three major upstream natural gas suppliers in China and have accumulated extensive experience in, and substantial understanding of, the piped gas industry in China. We also have over eight years of experience in constructing and operating vehicle refueling stations and have successfully constructed a total of 192 vehicle refueling stations as of December 31, 2010. Moreover, we have developed an integrated energy storage and transportation network, through utilizing roads, waterways, railways, pipelines and reserves, which facilitates the distribution within China as well as the importing and exporting of natural gas, LPG and other energy sources. Most members of our senior management team have spent over 10 years with us or have over 10 years of experience in the natural gas industry. We believe that our in-depth local expertise and market knowledge and experience give us a significant competitive advantage over foreign and local gas operators who seek to expand into the PRC piped gas distribution and vehicle refueling station businesses.

Strategies

We intend to maintain our position as a leading piped gas operator in China by focusing on the development of our core business of distributing piped natural gas while growing our vehicle refueling station business and energy management services.

We intend to achieve our strategic objectives by:

Increasing gas penetration rates and gas consumption by C/I customers in our existing operational locations

We intend to grow organically by increasing the gas penetration rates and the number of connected customers for our 90 existing operational locations. As of December 31, 2010, the overall piped gas penetration rate of residential households across our 90 operational locations in China was approximately 36.0%. We seek to increase piped gas penetration rates of residential households to 80% to 90% in line with penetration rates achieved in some of our more mature projects in China.

Through our marketing efforts, we also plan to increase gas consumption by C/I customers by (i) converting the consumption preference of C/I customers, which we expect to contribute substantially to the demand for natural gas in the near future, from more expensive energy sources and other high-emission energy sources to piped gas by emphasizing the advantages of clean energy, including price advantages over other energy sources; and (ii) converting our acquired coal gas or LPG pipeline networks into natural gas pipeline networks. We believe this indicates significant growth potential within our existing projects. In addition, the conversion of such pipeline networks can be completed at a relatively low cost and allows us to further expand the scale and coverage of our gas pipeline infrastructure to facilitate new connections and to devote our resources to providing value-added services to our customers and enhancing safety control.

Expanding our vehicle gas refueling station businesses

We intend to continue our efforts to expand the scope of our vehicle refueling station business. As of December 31, 2010, we operated 192 vehicle refueling stations in 46 locations across China. In addition, we have obtained approval from local governments for the construction of 385 vehicle refueling stations across China, approximately 5% of which are LNG vehicle refueling stations. We intend to leverage our experience in the CNG vehicle refueling station business to expand into the LNG vehicle refueling station market. We plan to construct LNG vehicle refueling stations along major truck routes with the goal of developing a network of such stations over the next few years. We expect to further expand our vehicle refueling station business in a number of operational locations and expect that the vehicle natural gas usage will constitute a significant portion of overall gas consumption in the future.

In recent years, the PRC government has been increasingly focused on reducing air pollution, including from vehicle emissions, and has been encouraging the use of highly efficient and non-oil products such as natural gas. As natural gas is 25% to 40% cheaper than gasoline and some cities subsidize vehicle owners to convert their vehicles to burn natural gas, there is an increasing number of consumers that are attracted to the prospect of converting their vehicles into natural gas vehicles. As a result of such initiatives and the rapid increase in the number of vehicles in China, there is growing demand for natural gas from vehicle owners as an alternative energy source. To help promote the conversion of vehicles into natural gas vehicles, we promote our conversion services and the environmental benefits and potential cost savings from use of natural gas to owners of vehicles which provide city transportation services such as taxis and buses and to private car owners.

As of December 31, 2010, we completed the conversion of approximately 40,000 vehicles into natural gas vehicles. From 2009 to 2010, natural gas sales to vehicles increased by 37.6%. To capitalize on such demand, we intend to continue to expand our network of vehicle refueling stations both inside and outside of our existing operational locations and to increase the proportion of income received from this business. Our Vietnam joint-venture project company is currently constructing a large-scale CNG storage facility in Xiefu. We plan to sell the CNG stored in this facility to C/I customers on the outskirts of Ho Chi Minh City, but may use it to expand into the vehicle refueling station business in Vietnam. To achieve these goals, we will continue to evaluate market conditions including customer demand and competitive landscape to design a suitable network and gauge our development scale for sustainable growth.

Maintaining strategic alliances with suppliers

Through our extensive operational experience in locations across China, we have built a large network of suppliers from which we source natural gas, pipeline and other materials, which helps us to ensure quality of the materials we purchase. We have also established long-term business relationships with many of our suppliers to help ensure stable sources of supplies and to secure a more favorable purchase price than acquisition in the open market. For example, we will continue to foster our strategic alliances with major upstream natural gas suppliers such as PetroChina, Sinopec and CNOOC, or their distributors in order to secure long-term sources of natural gas within a negotiated price range and to keep pace with the continued expansion of our business and the increase in demand for natural gas from our customers.

Exploring strategic joint ventures and acquisitions in domestic as well as international markets.

Our current strategy is focused on enhancing operations and increasing the penetration rates at our existing operational locations while continuing to acquire new projects in China, with a particular focus on the commercial and industry zones of emerging cities. We are also continuing to invest in quality projects and expand through selective and strategic joint ventures or cooperation with municipal governments or local gas companies and acquisitions as and when opportunities arise. In particular, we intend to target cities in China that either currently have, or are expected to have, access to natural gas sources or long-distance pipelines such as the West-East Pipelines. We believe such efforts will help us combat increasing competition in the natural gas distribution business.

We are also exploring piped gas projects in international markets. We acquired our first international pilot project in Vietnam through a joint venture with PetroVietnam to develop piped gas and vehicle gas refueling businesses. Through this joint venture, we have obtained rights to operate piped natural gas projects in every city in Vietnam. We plan to commence development of these gas projects in the most economically developed cities in Vietnam and, through this experience, we plan to develop a set of standards for evaluating, acquiring and operating international projects and will explore the possibility of developing similar businesses in other international markets. As we have already achieved extensive coverage in China in terms of operational locations, we believe such international expansion will offer us further growth potential and further diversification of our sources of revenue.

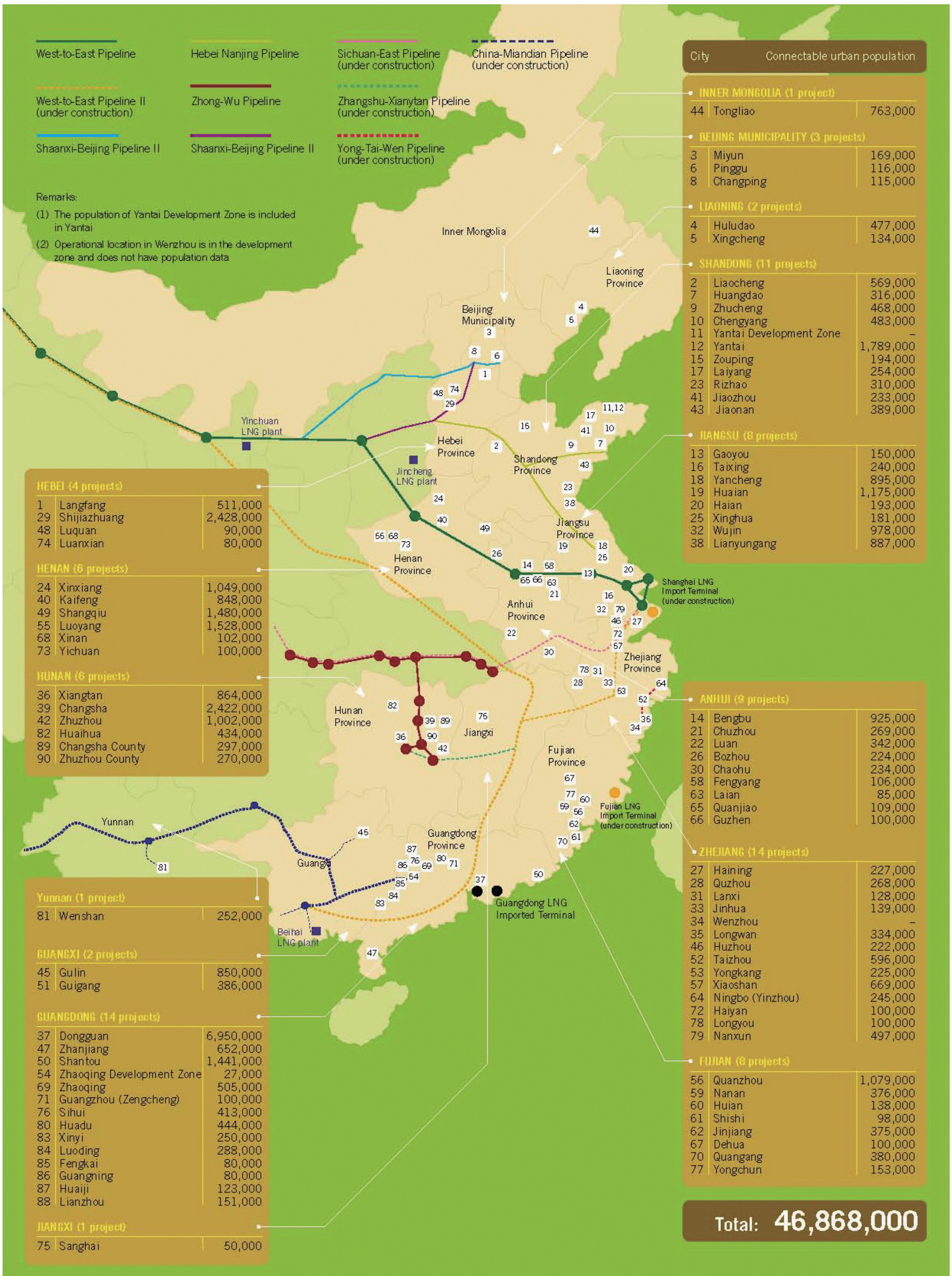
Enhancing management and efficient utilization of energy sources

In order to satisfy growing consumer demand for greater access to low-cost, safe, green and efficient energy sources, we continue to explore methods to improve natural gas and multi-energy utilization technology. We have formulated various energy distribution systems and established supply models for multi-energy products including gas, photoelectricity and calorific capacity. We have completed the polygeneration project for the Changsha Huanghua Airport and are currently implementing a cascading use of energy for the Liuyang Biomedical Park in Changsha. The Liuyang Biomedical Park project is scheduled to be completed in phases starting in the second quarter of 2011. These projects enhance energy utilization efficiency and result in lower energy consumption costs for our customers through the transformation, recycling, cascading use, in-depth processing and diversified supply of energy resources. We believe we can achieve a reduction in emissions for our customers while enhancing our revenue and earnings levels through these projects.

Areas of Operations

We have obtained exclusive rights from local governments to supply piped gas to substantially all of our existing operational locations including, but not limited to, cities and urban areas in Fujian, Guangdong, Jiangsu, Shandong, and Zhejiang provinces.

The map below shows the locations in which we have interests in the provision of piped gas.



Project Operational Data as of December 31, 2010

	Operational location[(1)]	Province	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)	Accumulated number of piped gas (including natural gas) customers: Residential households	C/I customers	Installed designed daily capacity for C/I customers (m^3)	Number of vehicle gas refueling stations
1	Langfang	Hebei	1993	429.9	4	632	152,549	740	469,571	5
2	Liaocheng	Shandong	2000	296.3	2	460	104,418	458	463,211	5
3	Miyun	Beijing	2000	95.2	3	168	47,954	189	112,294	0
4	Huludao	Liaoning	2000	276.1	1	230	143,693	306	140,713	4
5	Xingcheng[(3)]	Liaoning	2002	0.0	0	0	0	0	0	0
6	Pinggu	Beijing	2001	135.3	1	180	25,412	130	120,835	0
7	Huangdao	Shandong	2001	326.7	1	920	113,160	204	785,586	2
8	Changping	Beijing	2001	140.5	1	200	40,326	294	83,557	0
9	Zhucheng	Shandong	2001	179.2	0	0	56,670	100	89,804	0
10	Chengyang	Shandong	2001	357.0	3	400	135,033	274	293,812	4
11	Yantai Development Zone	Shandong	2001	10.4	1	45	0	1	12,000	0
12	Yantai	Shandong	2004	548.1	6	960	297,135	545	817,152	6
13	Gaoyou	Jiangsu	2001	70.5	1	72	24,653	136	23,705	0
14	Bengbu	Anhui	2002	305.8	1	510	118,435	262	330,058	6
15	Zouping	Shandong	2002	106.6	1	360	25,354	77	164,173	0
16	Taixing	Jiangsu	2002	156.3	2	396	29,050	297	175,582	0
17	Laiyang	Shandong	2002	185.0	1	72	42,268	136	64,670	1
18	Yancheng	Jiangsu	2002	262.9	1	150	116,480	484	271,609	2
19	Huaian	Jiangsu	2002	318.9	2	580	131,186	267	315,301	4
20	Haian	Jiangsu	2002	114.3	1	122	24,414	149	128,109	0
21	Chuzhou	Anhui	2002	300.5	2	600	68,916	286	337,332	2
22	Lu'an	Anhui	2003	131.0	1	60	64,186	145	43,607	3
23	Rizhao	Shandong	2002	258.0	1	300	81,795	131	119,566	2
24	Xinxiang	Henan	2002	426.0	1	560	175,300	523	336,477	6
25	Xinghua	Jiangsu	2002	88.9	1	50	24,050	112	25,167	0
26	Bozhou	Anhui	2003	152.3	1	46	24,852	104	30,452	2
27	Haining	Zhejiang	2002	245.0	2	396	32,458	144	181,178	0
28	Quzhou	Zhejiang	2002	144.5	3	280	44,065	140	100,561	0
29	Shijiazhuang	Hebei	2002	581.9	1	792	539,265	727	732,903	19
30	Chaohu	Anhui	2003	115.4	2	210	54,736	186	125,039	2
31	Lanxi	Zhejiang	2003	34.3	0	0	10,019	43	19,627	0
32	Wujin	Jiangsu	2003	895.2	2	1,330	120,499	1,270	1,152,684	6
33	Jinhua	Zhejiang	2003	106.8	2	210	37,000	155	60,663	0
34	Wenzhou	Zhejiang	2003	69.6	1	120	10,412	36	72,836	0
35	Wenzhou Longwan[(4)]	Zhejiang	2004	0.9	0	0	606	0	0	0
36	Xiangtan	Hunan	2003	282.1	2	380	160,935	642	259,156	5
37	Dongguan	Guangdong	2003	979.4	4	1,281	184,276	1,261	1,274,853	11
38	Lianyungang	Jiangsu	2003	457.1	2	200	160,283	410	342,155	4
39	Changsha	Hunan	2003	1,219.9	6	1,980	652,381	1,518	1,753,334	9
40	Kaifeng	Henan	2003	602.4	2	220	172,372	822	217,764	2
41	Jiaozhou	Shandong	2003	221.1	1	420	64,828	190	274,402	1
42	Zhuzhou	Hunan	2003	335.4	1	820	323,500	1,122	1,192,579	3
43	Jiaonan	Shandong	2003	243.2	1	210	52,606	75	140,261	1
44	Tongliao	Inner Mongolia	2004	85.2	1	50	63,224	90	29,248	2
45	Guilin	Guangxi	2004	208.0	2	240	78,581	69	41,297	1
46	Huzhou	Zhejiang	2004	196.3	1	620	57,915	166	149,784	2
47	Zhanjiang	Fujian	2004	230.3	2	380	53,579	255	261,075	3
48	Luquan	Hebei	2004	25.0	1	1,800	16,010	7	8,511	0
49	Shangqiu	Henan	2004	142.7	1	240	54,887	182	19,645	2
50	Shantou	Guangdong	2004	81.0	3	180	30,834	111	99,464	0
51	Guigang	Guangxi	2004	95.7	1	100	18,040	73	30,870	0
52	Huangyan	Zhejiang	2005	93.5	0	0	26,172	65	25,102	0
53	Yongkang	Yongkang	2005	116.3	1	160	9,658	101	107,305	0

	Operational location(1)	Province	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)	Accumulated number of piped gas (including natural gas) customers: Residential households	C/I customers	Installed designed daily capacity for C/I customers (m^3)	Number of vehicle gas refueling stations
54	Zhaoqing Development Zone	Guangdong	2005	54.3	1	100	779	22	122,665	0
55	Luoyang	Henan	2006	1,064.0	3	1,000	164,351	564	876,296	3
56	Quanzhou	Fujian	2006	246.9	5	567	24,661	139	99,181	2
57	Xiaoshan	Zhejiang	1994	282.7	0	0	101,702	207	188,398	0
58	Fengyang	Anhui	2005	19.8	0	0	951	15	120,570	1
59	Nanan	Fujian	2006	54.4	1	210	4,135	28	186,270	1
60	Huian	Jiangsu	2006	54.7	0	0	7,646	53	33,895	0
61	Shishi	Fujian	2006	61.2	0	0	6,140	82	179,387	0
62	Jinjiang	Fujian	2006	192.8	1	1,161	16,736	224	1,385,099	1
63	Laian	Anhui	2006	47.1	0	0	8,899	41	50,498	0
64	Ningbo	Zhejiang	2007	254.0	0	0	74,896	278	90,933	0
65	Quanjiao	Shandong	2007	66.2	0	0	16,142	61	16,781	0
66	Xinan	Henan	2007	35.0	1	0	2,808	6	30,160	0
67	Dehua	Fujian	2003	77.8	1	120	867	182	179,750	0
68	Guzhen	Anhui	2007	1.1	0	0	0	1	5,000	0
69	Zhaoqing	Guangdong	2008	84.0	1	120	16,165	48	43,590	0
70	Quangang	Fujian	2008	3.3	0	0	0	0	0	0
71	Guangzhou Zengcheng	Guangdong	2007	23.4	0	0	34,189	10	798	0
72	Haiyan	Zhejiang	2008	10.8	0	0	0	10	25,700	0
73	Nanchang Sanghai	Jiangxi	2009	0.0	0	0	0	0	0	0
74	Yichuan	Henan	2009	0.0	1	0	0	0	0	0
75	Luanxian	Hebei	2009	0.0	0	0	0	0	0	0
76	Longyou	Zhejiang	2009	16.8	0	0	2,352	2	5,150	0
77	Sihui	Guangdong	2009	24.4	0	0	2,247	3	11,300	0
78	Yongchun	Fujian	2009	0.0	0	0	0	5	12,600	0
79	Huzhou Nanxun	Zhejiang	2009	0.0	0	0	0	0	0	0
80	Huadou	Guangdong	2010	139.4	0	0	36,487	233	84,500	0
81	Wenshan	Yunnan	2010	24.8	0	0	0	0	0	0
82	Huaihua	Hunan	2010	21.9	0	0	0	0	0	0
83	Xinyi	Guangdong	2010	0.0	0	0	0	0	0	0
84	Luoding	Guangdong	2010	0.0	0	0	0	0	0	0
85	Fengkai	Guangdong	2010	0.0	0	0	0	0	0	0
86	Guangning	Guangdong	2010	0.0	0	0	0	0	0	0
87	Huaiji	Guangdong	2010	0.0	0	0	0	0	0	0
88	Lianzhou	Guangdong	2010	0.0	0	0	0	0	0	0
89	Changsha County	Hunan	2010	0.0	0	0	0	0	0	0
90	Zhuzhou County	Hunan	2010	0.0	0	0	0	0	0	0
Other project										
Shanghai (CNG)			2002	0.0	0	0	0	0	0	2
Shanghai (LPG)			2007	0.0	0	0	0	0	0	28
Shanghai (DME)			2007	0.0	0	0	0	0	0	1
Other gas refueling station projects				0.0	0	0	0	0	0	26
Total				16,340.3	100	23,970	5,618,583	18,424	18,175,160	192

(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.

(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.

The total length of existing pipelines servicing such operations is 16,340.3 km.

In April 2010, we also acquired our first international pilot project in Vietnam through a joint venture with PetroVietnam to develop piped gas and vehicle gas refueling businesses. Through this joint venture, we have obtained rights to operate piped natural gas projects in every city in Vietnam. We plan to commence development of these gas projects in the most economically developed cities in Vietnam, namely Hanoi, Ho Chi Minh City and Danang. If the connectable urban population of 8.9 million for the Vietnam project is also included, our total connectable urban population as of December 31, 2010 would reach approximately 55.8 million.

Our Business Activities

	Year ended December 31,		
	2008	**2009**	**2010**
Highlights			
Number of connected households (Piped Gas)	3,745,145	4,706,663	5,618,583
Installed designed daily capacity for C/I customers (m^3) (Piped Gas)	9,518,438	13,486,437	18,175,160
Units of piped gas sold			
Residential households (m^3)	420,880,000	520,170,000	640,597,000
C/I customers (m^3)	2,150,978,000	2,419,662,000	3,508,759,000
Length of existing pipelines (km)	12,584	14,126	16,340
Number of existing natural gas processing stations	90	94	100
Daily capacity of existing natural gas processing stations (m^3)	14,378,000	14,638,000	23,970,000
Vehicle gas refuelling stations	128	162	192
Connectable urban population coverage (millions)	41.64	43.57	46.87
Connectable residential households coverage (millions)	13.88	14.52	15.62
Piped gas penetration rate of residential households	27.0%	32.4%	36.0%

Our principal business comprises the construction, operation and management of gas pipeline infrastructure and the processing, sale and distribution of piped gas in China. Our business activities also include gas connection services, the sale of piped natural gas, the construction and operation of CNG and LNG vehicle refueling stations, the sale of bottled LPG and the sale of gas appliances and equipment.

Piped Gas Business

In 1993, we launched our piped gas business in Langfang, Hebei Province. In 2000, we expanded the business to Miyun (Beijing), Liaocheng (Shandong province) and Huludao (Liaoning province). As of December 31, 2010, we have 90 operational locations across 15 provinces in China and in three cities in Vietnam, supplying piped gas to 5,618,583 residential households and 18,424 C/I customers in China. Currently, our piped gas business is our most important source of revenue and profit. We intend to grow organically by increasing the penetration rate and the number of connected customers for our 90 existing operational locations while continuing to develop new projects both domestically and internationally.

Our gas pipeline infrastructure comprises intermediate pipelines, natural gas processing stations, main pipelines, branch pipelines and other ancillary facilities such as gas storage tanks and pressure-regulating boxes. Customer pipelines are owned by the customers. The expansion of our gas pipeline infrastructure, from the identification of a project to the supply of gas to end users, is described as follows:

Identifying and securing new operational locations

Preliminary review and feasibility studies

We select new operational locations after conducting preliminary evaluations and extensive feasibility studies on the target locations and after assessing the project's return on investment to our Group.

Some of the factors we consider include:

(a) size and concentration of population;

(b) existing penetration rate;

(c) extent and concentration of industrial and commercial activities;

(d) likely level of connection fees and gas usage charges;

(e) extent of the local government's commitment to environmental protection, environmental policies in place, and the local population's awareness of environmental issues;

(f) whether exclusive operational rights and preferential treatment on tax and governmental fees will be obtained;

(g) types of gas supply (piped natural gas, CNG or LNG) and methods of delivery, whether by way of intermediate pipeline (if the gas source or long-distance pipeline is located within 50 km), by CNG trucks (if the gas source or long-distance pipeline is located within 200 km) or by LNG trucks (if the gas source or long-distance pipeline is located within 600 km);

(h) economic statistics of the relevant locations; and

(i) in the case of acquisition of existing gas projects, the cost of acquisition, quality of assets and/or business to be acquired, extent of liabilities of the business and whether we are able to resolve problems perceived or encountered in respect of the relevant existing gas projects.

Based on the findings of feasibility studies, which cover the above mentioned factors, our business development team decides whether to make a recommendation to the management for approval to proceed with discussions and negotiations on the new project.

Securing a new operational location

Once our board of directors has approved a potential new project, we will prepare and submit a detailed gas project proposal to the local government and commence negotiations on major issues such as the granting of exclusive rights or rights of first refusal to supply gas to that location, proposed connection fees and gas usage charges and whether any tax and other concessions or favorable policies would be granted by the local government. At around the same time, we may also commence negotiations with a potential local joint venture partner who is familiar with the local environment. In instances where we take over an existing gas project (whether acquiring assets or a business), we will commence negotiations with the owner(s) of the gas project. A state-owned gas project must be acquired through a public tender process.

We attempt to reach an agreement with the local government on the proposed connection fees and gas usage charges, but such fees and charges are subject to final approval of the local state price bureau. After the formation of a project company, we will begin to negotiate gas purchase agreements to purchase gas from oil and gas exploration and production companies.

Investment in the construction of the gas pipeline infrastructure

Design stage

We appoint a government-approved design institute to carry out the design of the gas pipeline infrastructure for a gas project (which includes the intermediate pipelines, natural gas processing stations, main pipelines and other ancillary facilities such as gas storage tanks and pressure-regulating boxes) in accordance with our technical requirements and taking into account the size and needs of the local population, the state and developmental needs of the economy, the utilization of energy resources and environmental conditions. The master design is subject to approval by experts appointed by the local city construction department. The design stage typically takes two to three months. To better allocate our natural gas resources and ensure steady natural gas supply, we typically cluster our piped gas projects around major natural gas pipelines and during the design stage, we also account for building pipelines between certain projects in order to allow us to better control gas supply and working capital.

Construction stage

We generally enter into turnkey contracts with independent contractors for construction, installation and maintenance of gas pipes. We generally provide progress payments during the course of construction, installation or maintenance work with the remainder to be paid upon completion of a project. In the case of delay or failure on the part of the contractor to complete the project, we are entitled to claims for damages or, in some instances, rescission of the contract. Upon entering such contracts, we will commence the sourcing of raw materials such as pipes, gas regulating equipment and machinery. We have strict quality control procedures for the sourcing of supplies for construction purposes.

Our internal engineers and independent external inspectors monitor the entire construction process to ensure that each stage of construction meets our quality and safety standards and the relevant legal requirements.

Although the gas pipeline infrastructure is designed to cover the entire operational location, our construction program generally focuses on early gas delivery to areas of concentrated customer demand within an operational location so that gas supply can commence as soon as the essential gas pipeline infrastructure and facilities (such as the natural gas processing stations and the intermediate pipelines) are completed. Construction work in an initial target area will gradually be extended to cover the whole operational location. This extension of coverage typically takes two to five years.

Connection to gas users

Once we enter into a gas supply contract with a customer, we begin the design and construction of the branch pipelines and customer pipelines. Unless complex designs are involved, the designs of branch pipelines and customer pipelines are normally prepared by us, reviewed by a government-approved design institute, and carried out by external contractors. This process takes about one to three months.

Vehicle Gas Refueling Stations Business

In 2002, we launched our CNG vehicle refueling station business in Langfang, Hebei Province and later expanded the business to Shijiazhuang, Hebei Province. As of December 31, 2010, we converted 31,031 taxis and 1,385 buses into natural gas vehicles. Since 2004, we have launched our LNG vehicle refueling station business in Zhanjiang in Guangdong, Beihai in Guangxi and Tangshan in Hebei. LNG is over 600 times more compact than natural gas at its normal state and has higher energy density, making it much cheaper to transport and store. In urban areas where construction space is limited, we believe more growth will come from our LNG vehicle refueling stations, which are more compact and safer to operate, than CNG refueling stations. We continue to regard vehicle refueling stations as one of our core businesses and anticipate that this business will become one of our major sales channels of natural gas. In order to capture the increasing demand, we have set up a vehicle gas refueling station department to focus on the vehicle refueling station business.

During the year ended December 31, 2010, the number of vehicle gas refueling stations completed and in operation was 30, adding to a total of 192 vehicle gas refueling stations located in 46 cities across China, among which 12 were not among our gas project cities. We prioritize development of vehicle refueling stations in operational locations where we already have a piped gas project. This allows us to minimize transportation cost while capturing the synergy between our piped natural gas and vehicle refueling station businesses. In addition, as of December 31, 2010, the number of vehicle refueling stations which have obtained construction approval from local governments had increased to 385, approximately 5% of which are for LNG vehicle refueling stations.

The construction of our vehicle refueling stations, from the identification of a location to the supply of gas to vehicle customers, is described as follows:

Preliminary review and feasibility studies

Following a preliminary evaluation of the potential operational location, we make recommendations for a vehicle refueling station. We finalize the location of the station and begin preliminary negotiations once authorization has been obtained from the government to install a new vehicle refueling station. Vehicle refueling stations are usually built along major thoroughfares.

We conduct an extensive feasibility study on the target location, assessing the project's potential return on investment. Some of the factors considered include:

- economic statistics of the relevant location;
- zoning restrictions;
- motor vehicle statistics;
- expected competition;
- our natural gas supply;
- projected vehicle use natural gas sales;
- estimated investment cost; and
- estimated profit.

Once completed, the feasibility study is submitted to our investment department for approval.

Investment in the construction of the vehicle refueling station

Securing governmental approvals

Once we have approved a potential project, we will prepare and submit a detailed project proposal to the local government for approval and commence negotiations on major issues such as the granting of land use rights and construction permits as well as completing the relevant paperwork for an environmental impact analysis and for fire safety and quality inspection.

Designing the new vehicle refueling station

While waiting to obtain local government approvals and permits, we begin designing the station in preparation for construction. The design of a vehicle refueling station takes into account variables such as estimated vehicle traffic and fuel usage to determine the appropriate number, size and type of gas pumps. Based on the design, we select and purchase various equipment necessary for the station's operation. We also create a construction plan and budget which factors in equipment costs, land use costs, construction and related costs and allowances for other expenses.

Once the land use rights are obtained, we engage a government-approved design institute to produce a design blueprint in accordance with our technical requirements as well as regulatory requirements. Construction begins after the local government approves our blueprint.

Operating the vehicle refueling station

After completion, a vehicle refueling station is only put into operation if it passes a joint inspection by various governmental agencies as well as inspections by the designers and construction companies.

For each new station, we must obtain an operational permit as well as hazardous material sales permit before applying for a business license. Natural gas currently enjoys a price advantage over gasoline. We leverage this advantage to persuade drivers to convert their gasoline-burning vehicles into natural gas vehicles. We promote natural gas as a clean energy source and emphasize its price advantage over gasoline to vehicle owners. Our target customers are owners and operators of vehicles operating in a defined geographic area, such as buses and taxis. The owners of these vehicles are highly sensitive to fuel price because the vehicles are driven as much as 300-500 kilometers per day. The conversion process entails among other things, installation of a new gas tank and modification to the engine. We charge a fee of RMB3,000 to RMB5,000 for our conversion services.

Energy Management Services

With continued economic growth in China, there has been significant pressure on China's energy resources. Moreover, high energy consumption, pollution and greenhouse gas emissions have imposed a serious threat to China's environment and society. In response to this development, we have begun establishing supply models for multi-energy products (including gas, photoelectricity and calorific capacity) and providing energy management services to our customers. A supply model is based around the customer's energy needs. We plan to establish an energy center and provide energy to our customers using various energy inputs that suit their needs. Currently, our energy management projects include a polygeneration project for the Changsha Huanghua Airport and the cascading use of energy for the Liuyang Biomedical Park in Changsha. 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 our research and development, we developed a high performance control system based upon retaining heat, which increased energy efficiency by 30%. All these projects greatly enhance the utilization efficiency of energy resources and lower the energy consumption costs for customers through the transformation, recycle use, cascading use, in-depth processing and diversified supply of energy resources. We intend to grow our energy management services business to increase our revenue as well as to help reduce energy consumption and greenhouse gas emission. We plan to focus on developing our industrial energy conservation project, low-cost gas acquisition project, including biogas projects such as Zhanjiang Guangda Jiujing, Xuehua Beer and Guangxi Wuming, heat, electricity and gas multi-generation projects (多聯供) and projects relating to special industrial zones (園區項目).

Distribution of Bottled LPG

In addition to the distribution of natural gas to residential, commercial, industrial and vehicle customers, we also distribute bottled LPG. We mainly sell our bottled LPG to three types of customers: (1)

C/I customers, (2) residential customers and (3) small wholesalers. Sales to C/I customers account for the majority of our bottled LPG sales and has a higher profit margin.

Given the low gross profit margin of sales of bottled LPG from residential customers and small wholesales, in 2008, we began implementing our strategy of substantially reducing our sales of bottled LPG to these two customer groups to focus more on sales of bottled LPG to our relatively higher margin C/I customers as well as to focus our resources more on our higher gross profit margin piped gas business.

Sale of Gas Appliances

We also sell cooking stoves, water boilers, heaters and stored value card gas meters. We have established our own production plant of stored value card gas meters, deploying the finished products for internal use in our connection business as well as for sale to other gas distributors. Such measures help lower our costs of connection, ensure collection of gas usage charges and help us generate additional revenue.

Customer Base

Our customers can be classified into three broad categories, namely (i) residential customers, (ii) C/I customers, and (iii) vehicle customers. Different marketing strategies are adopted for different customer groups.

The following table provides a breakdown of our customer base by number of customers and volume of gas sales for the periods indicated:

	As of or for the year ended December 31,		
	2008	**2009**	**2010**
Customer base			
Number of gas residential customers	3,745,145	4,706,663	5,618,583
Volume of piped gas sales to residential customers (million m^3)	420.9	520.2	640.6
Number of gas C/I customers	11,288	14,020	18,424
Volume of piped gas sales to C/I customers (million m^3)	1,816.9	2,031.2	2,988.3
Total installed designed daily capacity for C/I customers of piped gas (million m^3)	9.5	13.5	18.2
Volume of gas sales to vehicles (million m^3)	334.0	388.4	520.4

Residential Customers

Gas is primarily used by residential owners for cooking and water and space heating. We focus on marketing to property developers, government departments and organizations and SOEs as these entities enter into master supply contracts with us for the connection of gas to all the units within a residential development (including new or existing, owned by such entities or their employees). These entities are responsible for, or coordinate, the advance payment of connection fees to us, while gas usage charges are paid by the individual users. Due to PRC government policies promoting energy conservation and emission reductions and increased urbanization in China, we believe that piped natural gas usage by residential owners will grow substantially in the coming years.

During the years ended December 31, 2008, 2009 and 2010, we completed piped natural gas connections to 710,035, 788,281 and 875,744 residential households respectively. As of December 31, 2010, we provide piped gas to a total of 5,618,583 residential customers in China.

Commercial and industrial Customers

Commercial customers use natural gas primarily for air conditioning, water and space heating and cooking purposes. These customers include, among others, owners of hotels, restaurants, office buildings, shopping malls, hospitals, educational establishments, sports and leisure facilities and exhibition halls. Natural gas has a wide variety of applications for industrial customers such as fueling industrial boilers, furnaces, ovens, incinerators, foundries and steamers as well as water and space heating in staff canteens and dormitories within the industrial customers' premises. We enter into supply contracts with these customers for the connection of gas to their premises, and both connection fees (payable in advance by installments based on the percentage of completion of the pipeline construction work) and gas usage charges (payable monthly in arrears) are borne by such customers.

During the years ended December 31, 2008, 2009 and 2010, we completed piped natural gas connections to C/I customers connected to gas appliances with a total installed designed daily capacity of 9,009,892 m^3, 13,024,142 m^3 and 17,649,198 m^3, respectively. As of December 31, 2010, we have a total of 18,424 C/I customers connected to gas appliances with a total installed designed daily capacity of 18,175,160 m^3 in China. Although the existing number of C/I customers is less than the number of residential customers, these customers are equally important to us as they are much higher volume gas users than residential customers and their demand for natural gas tends to be less seasonal.

Vehicle Customers

Vehicle customers use natural gas as fuel for their automobiles. These customers include owners and operators of taxis and buses who generally operate their vehicles within a defined geographic location. Gas purchases at our refueling stations are paid at the time of the gas purchase and may also be prepaid using stored value cards. We provide discounts for large purchases. The use of stored value cards help us generate more stable cash flow. For the three years ended December 31, 2008, 2009 and 2010, we sold 317.0 million m^3, 370.0 million m^3 and 509.1 million m^3 of natural gas through our vehicle refueling stations, respectively, representing 14.4%, 14.1% and 13.4% of our total volume of natural gas sales for the respective years. As of December 31, 2010, we completed the conversion of approximately 40,000 vehicles into natural gas vehicles.

Sales

For the three years ended December 31, 2008, 2009 and 2010, gas connection fees accounted for approximately 29.3%, 30.4% and 27.2% of our total revenue, respectively. Sales of piped gas accounted for approximately 37.4%, 48.5% and 59.1% of our total revenue for the three years ended December 31, 2008, 2009 and 2010. Distributions of bottled LPG accounted for approximately 24.3%, 10.6% and 2.2% of our total revenue for the three years ended December 31, 2008, 2009 and 2010, respectively. Revenue from vehicle refueling stations accounted for approximately 8.0%, 9.5% and 10.8% of our total revenue for the three years ended December 31, 2008, 2009 and 2010, respectively.

The following tables set forth for the periods indicated, the performance highlights as well as the contribution to our revenue and profit before tax, from our principal business activities:

	Year ended December 31,			
	2008	2009	2010	
	RMB'000	RMB'000	RMB'000	US$'000
Revenue:				
Sales of piped gas	3,094,767	4,077,527	6,632,734	1,004,960
Gas connection fees	2,421,617	2,553,755	3,048,777	461,936
Vehicle gas refueling station	661,160	797,663	1,209,385	183,240
Distribution of bottled LPG	2,009,304	897,121	240,290	36,407
Sales of gas appliances	78,660	86,814	83,903	12,713
	8,265,508	8,412,880	11,215,089	1,699,256

	Year ended December 31,			
	2008	2009	2010	
	RMB'000	RMB'000 (Restated)	RMB'000	US$'000
Profit before tax:				
Sales of piped gas	849,355	1,089,176	1,387,654	210,251
Gas connection fees	1,496,436	1,527,183	1,700,727	257,686
Vehicle gas refueling station	176,710	198,554	232,806	35,274
Distribution of bottled LPG	(50,423)	8,230	11,990	1,817
Sales of gas appliances	19,285	19,018	22,367	3,388
Unallocated items(1)	436,476	187,729	491,817	74,518
Unallocated expenses:				
– depreciation and amortization(2)	(244,822)	(302,011)	(343,888)	(52,104)
– corporate expenses	(1,552,338)	(1,344,521)	(1,692,508)	(256,441)
	1,130,679	1,383,358	1,810,965	274,389

(1) Unallocated items include other income, other gains and losses, share of result of associates and share of results of jointly controlled entities.

(2) The amount represents principally depreciation and amortization of property, plant and equipment relating to the gas connection, piped gas and LPG operation.

Sales of Piped Gas

Sales of piped gas constituted our most significant source of revenue for the years ended December 31, 2008, 2009 and 2010 and we intend to increase the percentage contribution of this business in the future. During the year ended December 31, 2010, we sold 640,597,000 m^3 of piped gas to residential households and 2,988,321,000 m^3 to C/I customers. Sales to C/I customers made up 72.0% of the total volume of gas sales. Gas usage charges are based on actual usage on a per m^3 basis. The gas usage charges per m^3 vary between operational locations, and the payment mechanism between different categories of customers is different.

Residential customers of project companies formed by us purchase gas units in cash at our sales outlets with details of the prepaid gas units stored electronically in a stored value card. The stored value card is inserted into a stored value card gas meter installed at the user's premises to activate the gas supply. Units of gas used are deducted from the stored value card. When the level of prepaid gas units drops to a certain level (currently pre-set at 3 m^3), the gas meter will produce a sound signal to remind the customer to replenish the value stored in the stored value card. The stored value card system minimizes payment default risks with respect to gas sales to residential customers.

For C/I customers and those residential customers without stored value card gas meters installed (amounting to approximately 1,150,000 households), payment for gas usage charges is made in arrears. Gas meters that record actual gas consumption are installed at the users' premises and meter readings are taken physically by us every month. Monthly bills based on the prior month's actual usage are then sent to customers. In general, settlements are received by us about one week from the date of billing. In the event a customer defaults in the payment of gas usage charges, the customer's gas supply will be suspended within one month of billing. In respect of commercial users with large gas usage volume, we may offer discounts on the approved charges, the extent of which will be subject to negotiation and agreement.

Gas Connection Fees

Gas connection fee income was our second most important source of revenue for the three years ended December 31, 2008, 2009 and 2010. We charge residential customers or real estate companies a different flat connection fee for connections made in respect of each different type of gas appliance, namely cooking stoves, water heaters and boilers, for cooking and water heating. The level of connection fees and whether such fees are inclusive of a particular gas appliance vary among operational locations and are approved by the relevant local state price bureau.

An individual residential customer is required to pay the connection fee in full prior to commencement of connection work. In some cases, connection fees are paid by the real estate developers constructing a new residential development. In respect of new residential developments, connection fees are collected in advance by installments based on the percentage-of-completion of the pipeline construction work. We generally provide property developers with a credit period of 60 to 90 days after construction is completed irrespective of whether the units are sold or occupied. However, the actual supply of gas will only commence after all connection fees are settled. In the event supply contracts are entered into for the connection of gas to a large number of households within a residential development (e.g. staff quarters of SOEs or governmental organizations), we may offer discounts of the approved fee payable, the extent of which will be subject to negotiation and agreement of the contract parties.

Our customers are usually required to provide 30% of the connection fee as deposit upon signing of the supply contract, 40% to 50% of the connection fee during the construction period and the remaining 20% to 30% upon completion. During the years ended December 31, 2008, 2009 and 2010, we completed piped natural gas connections to 710,035, 788,281 and 875,744 residential households respectively. During the year ended December 31, 2010, the average connection fee charged by us was RMB2,854.0 per household.

For C/I customers, the connection fee is determined based on the designed capacity of the gas appliance facilities (on a per m^3 per day basis) installed at the customers' premises. If any additional appliance is installed subsequently, additional connection fees will be charged to reflect the additional capacity installed. Discounts of the approved fee payable may be offered to high gas usage volume C/I customers, subject to negotiation and agreement of the contract parties. Connection fees are collected in advance by installments based on the percentage-of-completion of the pipeline construction work. In general, a C/I customer is required to provide 30% of the connection fee as deposit upon signing of supply contract, 40% to 50% of the connection fee during the construction period and the remaining 20% to 30% upon completion. In the event customers default in the payment of connection fees, we will not start the supply of gas to these customers until the connection fees are fully paid. The deposits received from customers upon the signing of supply contracts would normally cover our costs.

During the years ended December 31, 2008, 2009 and 2010, we completed piped natural gas connections to 2,548, 2,715 and 4,178 C/I customers, respectively. During the year ended December 31, 2010, the average connection fee charged by us was RMB177 per m^3.

Vehicle Gas Refueling Stations

We derive a portion of our revenue from the distribution and sale of CNG and LNG through our vehicle gas refueling stations. During the three years ended December 31, 2008, 2009 and 2010, sales through these stations generated revenue of RMB661.2 million, RMB797.7 million and RMB1,209.4 million, respectively.

Sales of LPG

We sell bottled LPG, which typically commands a lower margin than natural gas, as a transitional gas source in certain projects without piped gas infrastructure. In the three years ended December 31, 2008, 2009 and 2010, our sales of LPG amounted to 599,567 tons, 357,364 tons and 47,919 tons, respectively, most of which were contributed by our LPG operations in Bengbu and Luoyang. We expect the sales of LPG by these projects to gradually be replaced by piped natural gas following the completion of the construction of piped gas infrastructure in these operational locations and their connection to piped gas sources.

Sales of Gas Appliances

We derive a small portion of our revenue from sales of gas appliances such as cooking stoves, water boilers, heaters and stored-value card meters. During the year ended December 31, 2008, 2009 and 2010 we sold a total of 31,954, 13,852 and 6,682 cooking stoves, 8,564, 8,656 and 9,172 water boilers and 3,232, 3,606 and 1,557 heaters, respectively. We operate two stored value card meter factories with an annual production capacity of 850,000 units per year. Most of the meters produced were used by us for our own connection business which enabled us to achieve significant savings on stored-value card costs.

Pricing

Gas connection fees are determined after an analysis of factors such as estimated capital expenditure, number of users, growth in penetration rates, income levels and affordability of local residents. Connection fees and gas usage fees are subject to the approval of the local price bureau and any increases are also subject to the same approval process. Gas usage fees for residential end-users and any adjustments to such fees may only be approved by local pricing bureaus following a hearing, except projects where the end-user price is automatically linked to upstream costs. In cities with established price linkage mechanisms, retail prices to downstream residential users of natural gas will be adjusted in line with adjustments in prices for upstream purchases of natural gas supply. See the section entitled "Government Regulations – Pricing of Natural Gas" for details. Pursuant to PRC laws and regulations governing pricing of natural gas, when considering applications for an increase in gas usage fees, the local state price bureau may consider factors such as increases in the wholesale price of gas or operating expenses, inflation, additional capital expenditure, and whether the profit margin remains fair and reasonable. Indicative prices for C/I customers, and CNG vehicle refueling station customers are set by the local governments. We will confirm the final price with customers based on the indicative price set by the local government.

Prices of natural gas for vehicle use are also subject to PRC government regulation. In June 2010, the NDRC determined that natural gas for vehicle use should be priced no lower than 75% of the price of gasoline. As this is much higher than the current price for natural gas for vehicle use, the NDRC set the current floor price for natural gas price at 60% of the price of gasoline. The floor price will be gradually adjusted to 75% of the price of gasoline over a two-year period.

Sales and Marketing

Our head office is responsible for structuring our overall sales and marketing strategies. The individual sales and marketing team of each project company works together with the head office to structure an appropriate plan with reference to a specific operational location's situation and needs. The sales and marketing team is responsible for company imaging and brand building as well as promoting the advantages and concept of using natural gas as a necessary part of modern day life. After a project company is established, we will implement a series of promotional campaigns (which may include joint promotional campaigns with the local government) to increase public awareness of piped gas in the operational location. We will also commence active marketing negotiations on the terms of supply contracts with target customers with the aim of entering into supply contracts with potential customers as soon as possible.

We also market our businesses to owners' committees of existing buildings without piped gas supply. Representatives of the owners' committees will consult individual households as to whether they wish to have piped gas supply and coordinate the collection of connection fees from the users on our behalf. Connection fees are payable in advance by both residential and C/I customers. In contrast, gas usage charges are paid in advance by residential customers but are only paid after use by our C/I customers.

Purchases

Our main categories of purchase are gas, pipes, machinery, equipment and gas appliances. All of the materials we have purchased were acquired from independent third parties during the year ended December 31, 2008, 2009 and 2010.

For each of the three years ended December 31, 2008, 2009 and 2010, the percentage of the purchases attributable from our five largest suppliers was less than 30%. None of our directors, their respective associates or, to the best knowledge of our directors, any of our shareholders who own more than 5% of the issued share capital of our Company has any interest in any of our five largest suppliers.

We have established firm business relationships with our major suppliers for long periods. We also benefit from the long-term gas supply contract entered into between the local government of each operational location and one or more upstream gas suppliers who will guarantee to the local government an adequate supply of gas to the operational location for 10 to 20 years. In addition, we have entered to and intend to continue to enter into take-or-pay or other long-term gas supply contracts with upstream gas suppliers or their distributors for some of our operational locations to secure long-term gas supply for such operational locations. We believe our scale has given us bargaining power in securing more favorable terms relative to most other piped gas companies. We believe we have good relationships with our suppliers and we have not experienced any difficulty in the sourcing of natural gas or other major supplies.

Gas

We have entered into agreements to purchase natural gas with terms ranging up to 25 years from three major upstream natural gas suppliers in China, namely PetroChina, Sinopec and CNOOC, or their distributors. The city-gate price of natural gas is agreed between us and the suppliers with reference to the benchmark wellhead price and transportation costs. The benchmark wellhead price is determined by the NDRC based on the category of use: industrial, fertilizer or residential use. By NDRC regulation, the wellhead price we pay is capped at 110% of the benchmark price. The NDRC also determines the transportation costs for gas transported over national long-distance pipelines. Provincial price control authorities set the transportation costs for provincial long-distance pipelines. The wholesale price of natural gas also includes valued added tax.

We purchase CNG and LNG, as appropriate, at the prevailing market price to supplement our natural gas supply. Each supply agreement is entered into by individual project companies with our upstream natural gas suppliers. The pricing terms under these agreements may vary depending on the supplier and the locality of our operations. Under certain agreements, we have to pay a higher price if our natural gas needs exceed the amount contracted for. Other agreements provide for two purchase prices: a basic gas price (基礎氣價) and an industrial gas price (工業氣價). We specify what percentage of our gas will be supplied for industrial use and pay upstream suppliers accordingly. Our natural gas sales/purchase contracts generally state that the stipulated selling/purchase price of natural gas is subject to adjustment according to any new PRC government pricing policies.

The quantity of natural gas to be supplied to us by our upstream suppliers is usually stated in our gas purchase agreements. Except for certain projects located in areas surrounding the long-distance pipelines such as the West-East Pipelines Project in connection with which we have entered into long term take-or-pay gas purchase contracts with upstream suppliers, we are only required to pay the actual quantity purchased. We believe that the stated quantities of natural gas as set out in the relevant existing gas purchase agreements are sufficient for the potential demand of gas by the respective project companies.

As of the date of this offering memorandum, our piped gas projects in seven operational locations, namely Xinxiang, Chuzhou, Changzhou, Bengbu, Chaohu, Huaian and Lianyungang, utilize natural gas transmitted by the West-East Pipelines under take-or-pay or other long-term gas purchase contracts with PetroChina. Our take-or-pay contracts with PetroChina typically have terms up to 25 years. Our take-or-pay contracts with PetroChina typically contain a fixed purchase price for the first year of the term of the contract. From the second year, the purchase price for each year may be increased or decreased in accordance with a formula which takes into account the weighted average of movements of the United Kingdom's crude oil price, the PRC coal price and the Singapore LPG price, subject to a maximum increase or decrease of 8% each year. However, the final purchase price will be set by the policies of the NDRC. Certain of these contracts also set forth a committed take-or-pay volume for the year, which may be gradually increased on an annual basis. In 2011, our total gas supply volume committed in the take-or-pay or other long-term supply agreements was 3.7 billion m^3. Such take-or-pay volumes represent the guaranteed gas supply volume under the contract. Some of our contracts also include a discount arrangement which effectively reduce our actual take-or-pay commitments. For example, in one of our agreements between PetroChina and Chuzhou Xinao Gas Company Limited, we are only required to pay for a minimum of 80% of the take-or-pay volumes for the first, second and third years, respectively, if we cannot fully utilize the guaranteed volume. From the fourth year, we are only required to pay for a minimum of 90% of the annual take-or-pay volume.

Payments for the piped gas supplied to us are made on a weekly basis, the calculation of which includes elements of both payment in arrears based on actual use and payment in advance based on estimated usage. We believe that such arrangement is beneficial to us because it enables the relevant projects to secure long term guaranteed gas supply at a predictable price level (since the contracts are subject to an annual price ceiling of 8%), which is of strategic importance in the long run as we believe that demand for natural gas in China will continue to increase.

We have entered into take-or-pay or other long-term contracts with PetroChina for gas supplied by (i) the Zhong-Wu Pipelines to our piped gas projects located in Changsha, Xiangtan and Zhuzhou in Hunan Province; (ii) the Zhong-Chang Pipelines and Huabei Oil Field to our piped gas projects located in Liaocheng and Langfang, respectively; and (iii) the Shan-Jing Pipelines to our piped gas projects in Langfang. In addition, we have entered into a take-or-pay contract with Hebei Province Gas Company for gas supplied by the Shan-Jing Pipeline to our piped gas project in Shijiazhuang.

We have also entered into take-or-pay or other long-term contracts with CNOOC's distributor for gas supplied by CNOOC's Bohai Pipelines to our piped gas projects located in Yantai, Laiyang and Huludao. In addition, we have entered into a take-or-pay or other long-term contract with CNOOC's Fujian LNG terminal and Dapeng LNG terminal. The gas obtained from these LNG terminals will primarily be supplied to our piped gas projects in Quanzhou and Dongguan, respectively.

In addition to PetroChina and CNOOC's distributors, we also have entered into long-term gas supply contracts with Sinopec and its subsidiaries for gas supplied by the Ji-Qing Pipelines and Jiao-Ri Pipelines to our piped gas projects located in the Jiaozhou Bay area and Rizhao. We have entered into take-or-pay or other long-term contracts with Shandong Luxin to supply gas to our project in Zhouping.

Except for the take-or-pay gas purchase contracts with PetroChina, payment for natural gas by us to our suppliers is made monthly in advance and is based on our quarterly submissions of estimated purchases. Any delivery of gas is recorded by a meter installed at the point where our intermediate pipelines connect with the suppliers' long distance pipelines. Payment for gas purchased is made by us through checks, bank drafts or remittance denominated in Renminbi in accordance with the gas supply agreements. For the years ended December 31, 2008, 2009 and 2010, the cost of pipeline gas purchases accounted for 42.0%, 57.5% and 72.4% of our cost of sales, respectively.

Besides fully utilizing such gas pipeline networks and LNG terminals, we have also endeavored to search for other sources of energy supply. Apart from the existing LNG processing plants in Beihai, an additional two LNG plants in Yinchuan, Ningxia Province and Jincheng, Shanxi Province were completed and came into operation as scheduled during 2009. The annual production capacity of these LNG plants is around 400 million m^3 in aggregate and has created new gas supply sources for our Group. Moreover, we possess a massive non-pipeline transportation system (including LNG and CNG transportation trucks) with a one-off maximum transportation capacity of over 5.5 million m^3. With this additional transportation system, we expect to be able to secure a more stable gas supply.

Pipes, Machinery and Equipment

We purchase pipes of various diameters and wall thickness for installation in different segments of the gas pipeline infrastructure (the specifications of which must comply with PRC standards and regulations). We purchase all of our pipes, machinery and equipment domestically and settle our payments in Renminbi with credit terms ranging from 30 to 90 days.

LPG

We obtain our LPG from various suppliers and LPG importers as needed at market price to supplement our natural gas supply. We primarily purchase LPG in final form. The source prices of LPG and of its components are subject to both short-term and long-term price fluctuations. We are able to obtain volume discounts from certain suppliers on our overall LPG purchases and receive short-term interest-free credit from our principal suppliers, in part due to the high volume generated by our bulk business. We are exposed to market risk for fluctuations in source prices of LPG used in our bulk and retail LPG business.

Gas Appliances

As residential customers can choose to purchase gas appliances facilities from us, we purchase gas appliances in bulk directly from manufacturers in China and hold a limited amount of stock. We will provide customers repair and maintenance services to the gas appliance facilities we have supplied and such gas appliance facilities have a warranty period of one year.

Storage and Transportation Network and Capacity

Our project companies are equipped with energy storage systems and complete energy distribution networks. We also provide such companies with capacity in pipelined and non-pipelined gas storage and transportation.

We have built an integrated energy storage and transportation network, including roads, waterways, railways, pipelines and reserves, which facilitates the distribution within China as well as the importing and exporting of natural gas, LPG and other energy sources. We currently have more than 365 natural gas transport vehicles and 2 ships. Our CNG and LNG transport capacity is over 600,000 tons per year.

We currently have approximately 200 LNG storage tanks located at 52 storage stations and 41 high pressure round storage tanks with a combined storage capacity of 120 million m^3. We are currently building an LNG storage center in Changsha, Hunan province, with a storage capacity of 12 million m^3. This storage center is expected to become operational in 2012 and will allow us to build up natural gas reserves in the summer when demand is low, which will help alleviate potential seasonal shortage in the winter months when demand is high. We believe this approach is more economical than supplementing piped gas supply with LNG purchased at market prices. We plan to construct more regional storage centers such as the one in Changsha to further increase our emergency reserve capacity. We own the land and facilities of all of our storage centers. We may sell the LNG in storage to any purchaser, including our competitors.

Safety and Quality Control

Safety

We place great emphasis on safety control and have established a safety department to oversee safety issues for the project companies and adopted a comprehensive safety administration system. We carry out, through the project companies, routine inspection of the branch pipelines, customer pipelines, gas meters and gas appliances at the customers' premises twice a year. These semi-annual inspections are free unless major repairs are required, in which case we charge the customers for labor, replacement parts and other materials used for the repairs.

We believe in educating users about safety procedures. Accordingly, before gas is actually supplied, we will give a thorough explanation of safety procedures to users, and will arrange regular seminars or distribute brochures and booklets on safety for end users. Our project companies are linked to the "110" network so that they will be notified of any emergency reports. As at the date of this offering memorandum, 13 project companies have in operation the "95158" national 24-hour hotline for enquiries and reporting of emergency matters.

We have also prescribed and implemented the Operational Safety and Management Supervision Manual ("安全投入與管理監控守則") for the detection and prevention of the occurrence of accidents in facilities such as the long-distance natural gas transmission pipelines, natural gas processing stations, natural gas compression facilities, and CNG vehicle refueling stations and during the natural gas pipeline or CNG vehicle refueling station operating process. The Operational Safety and Management Supervision Manual was drafted in accordance with the People's Republic of China Industry Standards – Urban City Gas Facilities Operations, Maintenance and Emergency Repair and Maintenance Safety Technology Guidelines and our internal Xinao Gas Maintenance and Emergency Repair Coordination Plan (新奧燃氣維修,搶修機具配置方案).

For us to effectively monitor the operations of the pipelines, in particular, gas usage, gas leakages, or any other irregularities, we collect information about the temperature, pressure and volume of gas from key points along the main pipelines. The information is analyzed in the control center located in the head office of each operational location. We use a computerized system known as the Supervisory Control and Data Acquisition system, or SCADA, in several operational locations whereby a number of small detectors are installed along the main pipelines to collect such information and relay it back to the control center electronically. In other locations, information collection is currently carried out manually by the operational location's own personnel. Each project company conducts a major inspection of its pipelines, natural gas processing station(s) and other equipment at least once a year. Should gas leakages or any other irregularities be detected, we will take remedial action immediately. We continue to upgrade the information technology systems of our project companies to enhance our safety monitoring and management efficiency. We also focus on providing safety training to our staff.

We have not experienced any major accidents which have resulted in serious injury or death since we began operations in 1993.

Quality Control

Quality control begins in the design and construction phase of the gas supply infrastructure. Our quality control team of 113 members regularly makes inspection visits and conducts tests to ensure that construction work meets our required standards.

We also have strict quality control procedures for the sourcing of raw materials. Accordingly, we only purchase from our internally approved list of qualified suppliers, where such suppliers are required to have satisfied the relevant national standards.

To effectively monitor the quality of gas that we purchase, we regularly obtain gas composition reports from our gas suppliers. Such reports include details on the heat content and composition of impurities. We also conduct quality testing regularly on the gas we purchase.

Customer Service

We believe that quality customer service is the key for maintaining good and long term relations between us and our customers and is the bedrock for our sustainable business development. Besides the consistent use of our informatization program to provide rapid and efficient services to our customers, we have also set up a national customer service center to manage all customer service issues. The customer service center includes a service support center, a service supervision center and a national call center to provide more comprehensive services. The national call center will be supplemented by a total of seven regional call centers. Four regional call centers, located in Qingdao, Luoyang, Langfang and Huzhou, respectively, are already in operation. The three remaining regional call centers are expected to be operational by 2012. To ensure safe operation, all of our project companies conduct annual safety inspections for each connected customer. These inspections help alleviate potential hazards, strengthen our relationship with our customers and increases their confidence in our after-sales services. In addition to regularly monitoring the quality of such services through our public service monitoring network and service and complaint hotlines, we periodically carry out customer surveys with gas users to seek customer feedback on the quality of our installation work and after-sales services.

Consistent with our philosophy that "an ounce of prevention is worth a pound of cure," all group companies are required to visit customers for safety checks on their gas appliances twice a year. These measures help to relieve customers' worries regarding potential safety problems, and thus increase their confidence in our services.

Research and Development

Our in-house research and development team comprises 65 members who specialize in the fields of energy, mechanical and electronic engineering. Areas under research and development include:

- methods to increase operating efficiency and safety standards;

- alternative applications of natural gas, such as gas fueled air conditioners, washing machines and dryers, and use of CNG in motor vehicles;

- improvement of gas storage and transportation methods; and

- methods to replace other fuels with natural gas and increase natural gas usage.

Furthermore, to closely track gas-related developments overseas, representatives from the research and development department regularly attend international gas conferences and have exchange programs with overseas gas companies.

Research and development expenses for the years ended December 31, 2008, 2009 and 2010 amounted to approximately RMB12.9 million, RMB4.8 million and RMB10.8 million, respectively.

Intellectual Property

We place significant emphasis on developing our brand image and rely on trademark registrations to protect all aspects of our brand image. As of the date of this offering memorandum, we had registered one trademark, which is “安能捷”, in the PRC. Pursuant to the trademark licensing agreement entered into between us and Xinao Group Co., Ltd. on March 29, 2010, we are entitled to use the trademark “ ” on permitted products in permitted regions for a period of 30 years commencing on March 29, 2010 and ending on March 28, 2040, as set out in the trademark licensing agreement. We also registered the domain name “95158.com.”.

Environmental Matters

We operate a natural gas pipeline distribution network and the principal business includes the sale of piped natural gas. The Directors are of the opinion that the major infrastructure facilities where accidents such as gas explosions and natural gas leakage may occur are natural gas pipelines, CNG vehicle refueling stations and natural gas storage tanks. Natural gas pipelines are used to transmit natural gas to residential, C/I customers as well as to CNG vehicle refueling stations. CNG vehicle refueling stations are where natural gas is compressed and refueled. Natural gas storage tanks store natural gas as a reserve to meet peak demand.

Serious damage to such facilities may harm the environment. Accordingly, we have set up a number of procedures and policies designed to prevent and manage any potential damage to the fullest extent possible. In addition, we are required to comply with a number of environmental rules and regulations.

To ensure that our emergency prevention and repair efforts operate smoothly, we carry out at least one emergency drill each year. As at December 31, 2010, the number of technicians employed and engaged in safety maintenance and technical upgrading was 5,350.

In addition to its internally commissioned control, hazard prevention and emergency recovery procedures, we also need to comply with the relevant environmental protection regulations and to obtain specific licenses in order to operate.

Property

We both own and lease properties for our operations. When we state that we own certain properties in China, we own the relevant long-term land use rights. In China, with very few exceptions, industrial land is owned by the state.

We hold the land use rights to the underlying parcel of land for our facilities located in Hebei, Hunan, Henan, Anhui, Guangxi, Guangdong, Jiangsu, Zhejiang, Fujian, Inner Mongolia, Beijing, Liaoning and Shandong provinces. As of the date of this offering memorandum, the total site area of the properties that we owned was approximately 824,363 sq.m. We occupy our owned properties for purposes of, among other uses, production, storage, and office use.

As of the date of this offering memorandum, we had not obtained the proper building ownership certificates for certain properties located in Hebei, Shandong, Zhejiang, Henan, Guangxi, Guangdong, Fujian, Hunan, Anhui and Jiangsu provinces. See “Risk Factors – Risks Relating to Our Business – We have not received land use right certificates and/or building ownership certificates for certain of our properties in China.”

We currently lease 277 properties in Hebei, Shandong, Liaoning, Inner Mongolia, Anhui, Zhejiang, Jiangsu, Hunan, Henan, Guangdong and Fujian provinces for office and other uses.

Insurance

We have obtained insurance for certain fixed assets (including the pipelines owned by us) with a net book value of approximately RMB5.77 billion as of December 31, 2010 that we consider to be subject to significant operating risks. We have also obtained construction insurance for our construction-in-progress with a maximum coverage of RMB297 million.

We have also taken out third party liability insurance policies covering (i) the loss of life or property of third parties arising out of any accident that may occur in our business operations (with maximum coverage being RMB50.0 million), and (ii) the injury or loss of life of staff arising out of the business operations (with maximum coverage being RMB290,000 per claim per person but no limit on the number of claims). However, we have not taken out an insurance policy for any interruption in our business. This practice is consistent with what we believe to be the industry practice in China. Accordingly, there may be circumstances in which we will not be covered or compensated for certain losses, damages and liabilities, which may in turn adversely affect our financial position and results of operations.

Employees

As of December 31, 2010, we had 19,111 employees, substantially all of which were based in China. We have not experienced any strikes or disruptions due to labor disputes. We consider our relations with our employees to be good. We place great emphasis on the training and development of our employees and provide a wide range of training programs for them. For example, we have established a training program for young management through which, each year, a group of younger employees would be systematically selected to be involved in the management of our Company. We also engage outside professionals and consultants to organize seminars and training courses to equip our employees with new knowledge in the industry. We also sponsor our employees to attend external training programs organized by local and overseas institutions to acquire advanced knowledge and skills.

Competition

Due to the nature of the piped gas supply business, where substantial capital investment and extensive physical installation of gas pipeline infrastructure are required, it is not economically or practically feasible for more than one distribution company to operate in one location. Therefore, the local government will normally grant exclusive rights to a selected distributor to operate in a location and may grant rights of first refusal to extend the franchise period. Once we have identified a potential operational location, we will negotiate with the local government to obtain an exclusive right to supply gas to that operational location, which might cover the whole or the most densely populated areas of such operational location. While attempting to secure such exclusive rights or rights of first refusal, we may face competition from other distribution companies, which include stated-owned companies and non SOEs. Once we have successfully obtained an exclusive right, we face little or no competition from other piped gas distribution companies in that locality during the concession period for 20 to 30 years. Due to our extensive experience and sound track record of safe and reliable piped gas supply to end-users, we believe that we are well-positioned to obtain exclusive rights to supply gas to new operational locations and rights of first refusal to extend our franchise period. As at December 31, 2010, our project companies have obtained exclusive rights or rights of first refusal to supply gas to substantially all of their respective 90 operational locations.

After we secure an operational location, we face competition from existing providers of other fuel substitutes such as bottled LPG, coal and, to a lesser extent, electricity, as electricity for heating purposes is more expensive than gas and less popular for cooking purposes. We believe that with the PRC government's planned phasing out of the use of coal as a result of its environmental policies, and the comparative advantages of natural gas over coal and LPG as a safer, cleaner and more convenient form of fuel, competition from other fuel substitutes does not represent a serious threat to our business. From a cost perspective and on an energy adjusted per unit basis, natural gas is more economical than bottled LPG and electricity.

We expect to face intense competition in both our CNG and LNG vehicle refueling station businesses. Unlike the piped natural gas business, the local government in China typically does not grant exclusive rights or rights of first refusal to a selected company to operate in a location. Moreover, our current, and potential, competitors include companies that are part of much larger companies, including state-owned enterprises. These companies may have greater resources than we do, including longer operating history, larger customer base, stronger customer relationships, greater brand or name recognition and greater financial, technical, marketing, relationship and other resources. The growth of our CNG and LNG vehicle refueling station business also depends on increased adoption of natural gas by vehicle owners. As such, we also face competition from distributors of other alternative fuels and technologies used in hybrid or electric vehicles. We believe our effective management of vehicle gas refueling stations and safety management help us remain competitive in the vehicle refueling station business and have resulted in significant loyalty to our gas operations across our operational locations.

Legal Proceedings

During 2010, certain online news articles alleged that the former chief executive officer and director of our Company had made improper payments to a PRC government official. We believe that these allegations are untrue and unfounded and, in June 2010, published an announcement on the website of the Hong Kong Stock Exchange to specifically deny these allegations. To date, neither we nor our former chief executive officer and director have received any notices from any relevant government agency or authority in connection with such allegations.

Neither we nor any of our subsidiaries are involved in any litigation which would have a material adverse effect on our business or financial position and no material litigation or claim is known by us to be pending or threatening against us or any of our subsidiaries.

GOVERNMENT REGULATIONS

We operate in an industry that is generally regulated by a number of different PRC state ministries and departments, including without limitation, the NDRC, the National Energy Administration, or the NEA, the *Ministry of Housing and Urban-Rural Development* (formerly known as the *Ministry of Construction*), or the MOHURD, the General Administration of Quality Supervision, Inspection and Quarantine, or the GAQSIQ, and is subject to laws and regulations which govern different aspects of our operations in China, including without limitation, pricing of natural gas, operations of urban gas, project approvals and safety. In addition to industry-specific requirements, our operations are subject to general regulations in China, including regulations on foreign exchange, labor protection and taxation.

Natural Gas Industry Policies

On August 30, 2007, the NDRC promulgated Policies on Natural Gas Utilization (《天然氣利用政策》) pursuant to which the use of natural gas is regulated on a demand basis. Under the policy, the usage of natural gas is categorized into four main areas: city gas, industrial fuel, power generation by natural gas, and chemical engineering using natural gas. Balancing factors such as its social, environmental and economic benefits, and the different profiles of its users, natural gas utilization is also divided into the following categories: prioritized, permitted, restricted and prohibited.

Urban Gas Enterprise Qualification Certificate

On December 23, 1997, the Ministry of Construction issued the Administrative Measures on Urban Gas Utilization (《城市燃氣管理辦法》), or the Gas Measures, which became effective on January 1, 1998. The Gas Measures regulate the planning, construction and operation of urban gas, the manufacturing and sale of urban gas appliances and the utilization and safety management of urban gas. According to the Gas Measures, the construction administrative authority under the State Council is responsible for the overall management of urban gas in China, while the construction administrative authorities under local governments above the county level are responsible for the management of urban gas in their respective regions. Any enterprise engaged in the business of urban gas supply in China must obtain an urban gas enterprise qualification certificate (《城市燃氣企業資質證書》) from the local construction authority prior to the commencement of its urban gas supply business.

Gas Operation License

In November 2002, the State Council abolished the requirement for Urban Gas Enterprise Qualification Certificates under the Gas Measures pursuant to the Decision of the State Council to Abolish the First Batch of Administrative Approved Items (《國務院關於取消第一批行政審批項目的決定》). The Administrative Licensing Law (《行政許可法》) was adopted by the Standing Committee of the National People's Congress on August 27, 2003, pursuant to which local governments are empowered to grant licenses to privately owned entities to engage in specified businesses. On June 29, 2004, the State Council issued the Decision of the State Council to Implement Administrative Licensing for Reserved Administrative Approved Items (《國務院對確需保留的行政審批項目設定行政許可的決定》), together with the Administrative Licensing Law, the Administrative Licensing Regulations. Pursuant to the Administrative Licensing Regulations, an enterprise which operates in the gas distribution business in China is required to obtain a gas operation license (《燃氣經營許可證》) from the local government in charge of construction.

On October 15, 2004, pursuant to the Administrative Licensing Regulations, the Ministry of Construction issued the Provisions Regarding the Conditions for the Fifteen Administrative Approval Items Adopted by the State Council (《建設部關於納入國務院決定的十五項行政許可的條件的規定》), or the Condition Provisions. Under the Condition Provisions, in order to obtain a gas operation license from the local government in charge of construction, a gas company must satisfy the following main conditions:

(i) the construction project must be in compliance with the general plan and the gas plan of the city;

(ii) have a stable and qualified gas supply;

(iii) have production, transportation, storage, filling and supply facilities which meet the required standards and which satisfy fire prevention and construction quality requirements;

(iv) have trained technicians to handle gas;

(v) have complete records of infrastructure construction, production, equipment, materials and safety;

(vi) have sound equipment to handle accidents, and an emergency team, staff, equipment and transportation facilities with regard to the scale of gas distribution;

(vii) have received a safety appraisal report from the appraisal intermediary;

(viii) have adequate registered capital; and

(ix) must have taken out industrial injury insurance for the construction project.

On October 19, 2010, the Regulations on the Administration of Urban Gas (《城鎮燃氣管理條例》) were promulgated by the State Council and became effective on March 1, 2011. The Regulations on the Administration of Urban Gas applies to urban gas development plans and emergency safeguards, gas operation and service, gas use, gas facilities protection, prevention and disposal of gas safety accidents and the relevant administrative activities. Pursuant to the Regulations on the Administration of Urban Gas, an enterprise which carries on gas operation in China must meet the following requirements to obtain a gas operation license from the local government at or above the county level in charge of gas administration:

(i) conform to the fuel gas development planning requirements;

(ii) have gas sources and gas facilities that meet national standards;

(iii) have fixed business premises, a safety management system and a sound management plan;

(iv) assign a principal responsible person from the enterprise, personnel for the administration of production safety and operation and personnel for maintenance and repair who have received professional training and passed relevant examinations; and

(v) other requirements provided by PRC laws, rules and regulations.

Concession Rights

On March 19, 2004, the Ministry of Construction issued the Municipal Utility Concession Administrative Measures (《市政公用事業特許經營管理辦法》), or the Concession Measures, effective on May 1, 2004, to promote concession systems in utility industries including the pipeline gas distribution industry. Pursuant to the Concession Measures, local governments will normally grant concession rights to operate piped gas distribution businesses in a specified area. Such specified area may be part or all of the city or county, depending on the terms of the concession rights granted. The PRC government authorities in charge of utilities at the city or county level are responsible for the implementation of the Concession Measures. Pursuant to the Concession Measures, the concession period normally will not exceed 30 years.

In September 2004, the Ministry of Construction published a standard form of concession contract with respect to piped gas distribution for guidance. The form of concession contract has specific provisions mainly in respect of:

(i) granting, revocation and termination of the concession;

(ii) construction, maintenance and improvement of the gas distribution facilities;

(iii) gas distribution safety;

(iv) quality of the gas and standards of services;

(v) fees;

(vi) default liabilities; and

(vii) dispute resolution.

Pricing of Natural Gas

According to the PRC Pricing Law, the PRC government may direct, guide or fix the prices of public utilities according to a pricing schedule prescribed by the central or the local governments. China's pricing regime for domestic natural gas comprises three components: wellhead price, transportation costs and end-user prices. The NDRC determines the benchmark wellhead price as well as the transportation tariff for national long-distance transmission pipelines, but also permits natural gas purchasers and sellers to contractually agree on an wellhead price not exceeding 110% of its benchmark wellhead price. Provincial price control bureaus determine the transportation costs for provincial gas pipelines, including provincial long-distance transmission pipelines. Local governments determine the end-user price.

The pipeline transportation tariff of our piped natural gas available for wholesale is determined by the provincial price control bureau, based on a price schedule released by the NDRC. We also take into account the types of end users of a wholesale customer when determining the sales price of our natural gas to the customer. We obtain approval from the relevant local pricing authorities for the retail price of our piped natural gas that we sell in a particular region, as well as any adjustment of the retail price. In the case of natural gas for residential use, the relevant local pricing authorities determine the end-user price and any price adjustment are subject to a hearing process that involves the affected residence. The price of CNG in China is also determined by local pricing authorities. Our natural gas sales contracts generally state that the stipulated selling price of natural gas is subject to adjustment according to any new government pricing policies.

Natural Gas Policy

Pursuant to the requirements of the Notice of the NDRC on the Reform of the Mechanism for Setting Natural Gas Ex-Plant Price and the Appropriate Raising of Natural Gas Ex-Plant Price in the Near Term (《國家發展改革委關於改革天然氣出廠價格形成機制及近期適當提高天然氣出廠價格的通知》) issued by the NDRC on December 23, 2005, the pricing authority shall implement a uniform natural gas price that shall follow the government guided price. Prices shall be fixed for three categories of gas, namely gas for fertilizer production, gas for direct industrial uses and city gas. City gas includes gas for residential uses, gas for commercial uses and gas for small-scale industrial users of the city gas companies. The ex-plant price of natural gas is divided into two-tier prices. The benchmark ex-plant price of natural gas is adjusted once every year.

On November 8. 2007, the NDRC published the Notice on the Adjustment of Natural Gas Price (《關於調整天然氣價格有關問題的通知》), which requires the suppression of overconsumption of natural gas by industrial users, irrational development of gas-powered automobiles, and reduction of the price gap between natural gas and alternative energy sources. The main points of this notice are: (i) to appropriately increase the benchmark ex-plant price of natural gas for industrial uses; (ii) to relax control over the ex-plant price of natural gas supplied to LNG-production enterprises; and (iii) to rationalize the price difference between natural gas and gasoline for automobiles.

On May 31, 2010, the NDRC issued the Notice on Price Increase of Natural Gas (《國家發展改革委關於提高國產陸上天然氣出廠基準價格的通知》), effective as of June 1, 2010, to promote energy conservation, adjust the price difference between natural gas and other alternative energy resources and optimize the reasonable allocation of natural gas resources. The key focuses of this notice are: (i) to increase the ex-plant price of domestically produced natural gas and perfect relevant pricing policies, including increasing the benchmark ex-plant prices of domestically produced natural gas, abolishing the "dual-track" pricing system and expanding the floating price range; (ii) to reach a reasonable sales price for natural gas by allowing natural gas purchasers and sellers to contractually agree on a sales price not exceeding 110% of the new benchmark ex-plant prices; and (iii) to enhance the relevant ancillary measures.

On the provincial level, natural gas price linkage mechanism is adopted in some provinces. The main objective of this trial method is to regulate the administration of natural gas pricing in Hebei Province, and to protect the legal interest of operators and consumers. Among others, the key focuses are (a) the price of natural gas consists of costs, profits and tax payments. Costs represent manufacturing costs, administrative expenses, financial costs and sales expenses arising from natural gas operating enterprises. Profits represent reasonable gains which should be received by natural gas operating enterprises in the ordinary course of business, and the profit margin on net assets of the enterprise shall not exceed 8% of the determined level. Tax payments represent taxes payable by natural gas operating enterprises in accordance with national tax laws; (b) the pricing of natural gas relies on a combination of government fixed prices and government-guided prices, and is managed by classification according to its operating mode; and (c) to establish a price linkage mechanism between the upstream wholesale gas prices and gas prices to end-users. Before the price linkage mechanism becomes effective for residential customers, a hearing must be conducted to determine the initial price. Following implementation of the initial price, there is no need to hold a price hearing again, and the prices will be published by the local pricing authority to the public upon verification in accordance with established procedures.

Project Approval

Pursuant to the PRC Urban and Rural Planning Law (《中華人民共和國城鄉規劃法》) implemented on January 1, 2008 and the PRC Construction Law (《中華人民共和國建築法》) implemented on March 1, 1998, and the Administrative Regulation of Construction Work Quality (《建設工程質量管理條例》) implemented on January 30, 2000, a construction planning permit and a construction permit must be obtained in relation to the engagement in the planning and construction of facilities and pipelines.

Petroleum and Natural Gas Pipeline Protection

The PRC Petroleum and Natural Gas Pipeline Protection Law (《中華人民共和國石油天然氣管道保護法》) was promulgated on June 25, 2010 and implemented on October 1, 2010. The PRC Petroleum and

Natural Gas Pipeline Protection Law regulates the protection of pipelines for transportation of petroleum and natural gas in China as well as their ancillary facilities. The Energy Department of the State Council regulates the national pipeline protection in China in accordance with the PRC Petroleum and Natural Gas Pipeline Protection Law and other relevant departments of the State Council are responsible for the related work on protection of pipelines within their respective functions. The energy departments of provinces, autonomous regions and municipalities and departments designated by the governments of the municipalities and counties regulate the protection of pipelines of the administrative areas according to the law, and the other relevant departments of the local governments above county level are responsible for the related work on protection of pipelines within their respective functions in accordance with relevant laws and administrative regulations.

Hazardous Chemical Operation License

The Regulations on the Safety Administration of Hazardous Chemicals (《危險化學品安全管理條例》) were promulgated by the State Council on January 26, 2002 and became effective on March 15, 2002 (amended on March 2, 2011 and will become effective on December 1, 2011). Pursuant to the Regulations on the Safety Administration of Hazardous Chemicals, the production, storage, usage, operation and transportation of hazardous chemicals within China must comply with the provisions of the aforesaid regulations. Any entity or individual shall not be engaged in the operation of hazardous chemicals without permission from the relevant regulatory authorities.

The Measures for the Administration of Hazardous Chemical Operation License (《危險化學品經營許可證管理辦法》) were promulgated by the former State Economic and Trade Commission on October 8, 2002 and became effective on November 15, 2002. The Measures for the Administration of Hazardous Chemical Operation License established a licensing system for the operation and sale of hazardous chemicals. Entities engaged in the operation and sale of hazardous chemicals must obtain a hazardous chemical operation license (危險化學品經營許可證) pursuant to the aforesaid measures before registration with the administrative bureaus for industry and commerce. No entity or individual may operate or sell hazardous chemicals without obtaining the hazardous chemical operation license and registering with the administrative bureau for industry and commerce.

Gas Cylinder Filling Permit

The Regulations on Safety Supervision of Special Equipment (《特種設備安全監察條例》) were promulgated by the State Council on March 11, 2003 and became effective as of June 1, 2003 (amended on January 14, 2009 and effective from May 1, 2009). The "special equipment" referenced in the regulations refers to boilers, pressure vehicles (including gas cylinders), pressure pipelines, elevators, lifting alliances yard (factory) special motor vehicles, passenger ropeways, and large amusement devices, which impact the safety of human lives or involve high risk.

Pursuant to the Regulations on Safety Inspection of Gas Cylinders (《氣瓶安全監察規定》) promulgated by the GAQSIQ on April 3, 2003 and effective on June 1, 2003, enterprises operating gas cylinders filling shall obtain a gas cylinders filling permit (《氣瓶充裝許可證》) issued by the provisional quality supervision department.

Foreign Exchange

On October 21, 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) ("Notice 75"). Notice 75 became effective as of November 1, 2005. In order to further clarify relevant problems concerning the implementation and application of Notice 75, the General Affairs Department under SAFE (國家外匯管理局綜合司) issued the Notice on Printing and Distributing the Operating Rules for the Notice on Issues Relating to the Administration of Foreign Exchange in Fundraising and Reverse Investment

Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (關於印發《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) ("Notice 106") on May 29, 2007. Notice 106 became effective as at May 29, 2007. Notice 75 provides that domestic residents who plan to establish or control an offshore special purpose vehicle must conduct foreign exchange registration with the local foreign exchange authority; domestic residents who have contributed their assets or shares of a domestic enterprise into an offshore special purpose vehicle, or have raised funds offshore after such contribution, must conduct foreign exchange registration for modification of the record concerning the offshore special purpose vehicle with the local foreign exchange authority; and domestic residents who are the shareholder of an offshore special purpose vehicle are required to go through registration for the modification of the record with the local foreign exchange authority within 30 days from the date of any major capital change event, such as an increase/decrease of capital, share transfer, share swap, merger or division, long-term equity or debt investment or external guarantee where no round-trip investment is involved.

Labor Protection and Social Security

According to the Labor Law of the PRC (中華人民共和國勞動法), which took effect on January 1, 1995, enterprises and institutions shall establish and perfect its system of work place safety and sanitation, strictly abide by State rules and standards on work place safety and sanitation, educate laborers of work place safety and sanitation.

The Labor Contract Law of the PRC (中華人民共和國勞動合同法) effective as of January 1, 2008 emphasizes the conclusion of employment contracts in written form and imposes severe consequences for non-compliance. If the employer fails to conclude a written employment contract with an employee for one month to one year after the actual commencement of work, the employer must pay the employee double salary for the relevant months. If the employer fails to conclude a written employment contract with an employee for more than one year after the actual commencement of work, an unfixed-term of contract is deemed to have been concluded. Enterprises and institutions are forbidden to force the employees to work beyond the time limit and the employers shall pay employees overtime work in accordance with national regulations. In addition, wages shall not be lower than local standards on minimum wages and shall be paid to the laborers on a timely basis.

The PRC has established a social security system providing people with basic pension insurance, unemployment insurance, medical insurance, maternity insurance, work injury insurance, and housing funding by promulgating the Social Security Law (社會保險法), the Provisional Regulations on the Collection and Payment of Social Insurance Premiums (社會保險費征繳暫行條例), Regulations on Work Injury Insurance (工傷保險條例), Regulations on Unemployment Insurance (失業保險條例), Decision on Establishing a Unified Basic Pension Insurance System for Enterprise Employees (關於建立統一的企業職工基本養老保險制度的決定), and many other regulations. Any employer who fails to pay its social insurance premiums or withhold the employee's portion may be ordered by the PRC Ministry of Human Resources and Social Security or the PRC Tax Bureau to make such payments within a stipulated period, and may be liable for a penalty.

Taxation

Enterprise Income Tax

Before January 1, 2008, the enterprise income tax of foreign-invested enterprises was governed by the Income Tax Law of the PRC of Foreign-invested Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) (the "Income Tax Law of Foreign-invested Enterprises and Foreign Enterprises"), and a tax rate of 30% in respect of the taxable income was charged. The local income tax was computed on the basis of taxable income at the rate of 3%. On January 1, 2008, the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) and its implementation rules came into force and the Income Tax Law of Foreign-invested Enterprises and Foreign Enterprises were repealed concurrently. Income derived from the PRC by enterprises or other organizations shall be charged enterprise income tax at the rate of 25%. On December 26, 2007, the State Council issued Circular 39, pursuant to which, with effect from January 1, 2008, enterprises that previously enjoyed the regular tax exemptions, reduction and preferential treatments, such as "two years of exemption and three year of 50% reduction" of enterprise income tax and "five years of exemption and five years of 50% reduction" of enterprise income tax would continue to enjoy the preferential treatment according to the preferential measures and term prescribed in the original tax laws, administrative regulations and related documents until the expiration of the original terms. The term of preferential treatment for enterprises that did not enjoy preferential treatment due to lack of profit commenced in 2008.

Business Tax

The business tax of foreign-invested enterprises was governed by the Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例), which came into force with effect from January 1, 1994, and was amended on November 10, 2008. The amendment came into force with effect from January 1, 2009. According to the provisional regulations, enterprises in service industry shall be subject to business tax at the rate of 5% on their turnover.

Value-added Tax

The value-added tax of foreign-invested enterprises was governed by the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例), which came into force with effect from January 1, 1994, and was amended on November 10, 2008. The amendment came into force with effect from January 1, 2009. Under the provisional regulations, value-added tax is payable on the sale or import of goods and the provision of processing, repair and labor replacement services in China. The value-added tax rate is generally levied at 17%, however, a tax rate of 13% is applicable to the sale or import of certain categories of necessities.

MANAGEMENT

The following table sets forth certain information with respect to our directors as of the date of this offering memorandum:

Name	Age	Position
Mr. WANG Yusuo	47	Chairman of the Board of Directors and Executive Director
Mr. CHEUNG Yip Sang	44	Chief Executive Officer and Executive Director
Mr. ZHAO Jinfeng	43	Executive Director
Mr. YU Jianchao	42	Finance Director
Mr. CHENG Chak Ngok	40	Company Secretary, Chief Financial Officer and Executive Director
Mr. LIANG Zhiwei	47	Executive Director
Ms. ZHAI Xiaoqin	42	Executive Director
Mr. ZHAO Shengli	41	Chief Operations Officer and Executive Director
Mr. WANG Dongzhi	42	Vice President and Executive Director
Ms. ZHAO Baoju	45	Non-Executive Director
Mr. JIN Yongsheng	47	Non-Executive Director
Mr. WANG Guangtian	47	Independent Non-Executive Director
Ms. YIEN Yu Yu, Catherine	40	Independent Non-Executive Director
Mr. KONG Chung Kau	41	Independent Non-Executive Director

Executive Directors

Mr. WANG Yusuo, aged 47, is a co-founder, the Chairman and an Executive Director of our Company. He is responsible for overseeing our overall strategic planning and providing leadership for and overseeing the functioning of our board of directors. Mr. Wang has over 24 years of experience in the investment in, and the management of, the gas business in China. 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, or EGII, which is a controlling shareholder of our 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 October 15, 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 our Company responsible for the daily operation and management and the business expansion of our Group. Mr. Cheung joined our 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 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 March 31, 2010.

Mr. ZHAO Jinfeng, aged 43, is an Executive Director of our Company responsible for coordinating our 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 our Group in 1993, Mr. Zhao worked at Langfang City Electrical Company and was 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 our Company and joined our Group in 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 our Group, he worked as the chief accountant for a number of foreign enterprises, including GSK (Langfang) Co., Limited 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 our 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 October 15, 2007.

Mr. CHENG Chak Ngok, aged 40, is an Executive Director, our Chief Financial Officer and our Company Secretary responsible for financial reporting, financial management, corporate finance, implementation of good corporate governance as well as investor relations management. Prior to joining us 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 honors bachelor's degree in accounting and finance. He has also obtained an 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 our Company.

Mr. LIANG Zhiwei, aged 47, is an Executive Director of our Company responsible for the management and execution of our 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 our 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 our Company responsible for monitoring audit process and carrying out risk management. She graduated from the School of Economic and Management of Tsinghua University in 1996 and received a master's degree in business administration from the Beijing Institute of Technology in 2001. She has just obtained an executive master's degree in business administration from the Sino-Europe International Business School in 2009. Prior to joining our Group in 1996, Ms. Zhai had been serving in Nantong Yifanda Computer Company Limited as the Sales Director. Ms. Zhai has accumulated more than 15 years of experience in strategic management, risk management and corporate governance.

Mr. ZHAO Shengli, aged 41, is the Executive Chief Operations Officer and General Manager – Hunan, Guangxi and Yunnan areas of our 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 Tsinghua University in 2000. Prior to joining our 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 an Executive Director with effect from March 25, 2011.

Mr. WANG Dongzhi, aged 42, is the Executive Director and Vice President of our 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 China in 2000 and a master's degree in business management from Tianjin University in 2003. Before joining our Group in 2000, Mr. Wang was in charge of the finance department of a Sino-foreign joint venture company. He has extensive experience in financial management and internal control. Mr. Wang was appointed as an Executive Director with effect from March 25, 2011.

Non-Executive Directors

Ms. ZHAO Baoju, aged 45, is a co-founder and a Non-Executive Director of our Company. She has over 18 years of experience in investing in gas fuel projects in China. 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 our 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 October 15, 2007. Ms. Zhao and Mr. Wang Yusuo jointly control various investment holding companies.

Mr. JIN Yongsheng, aged 47, is a Non-Executive Director of our Company. He graduated from the Tianjin University of Finance and Economics in 1986, specializing in finance, and has obtained an executive master's degree in business administration from the Peking University in 2005. Prior to joining our 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 China and has over 21 years of experience in legal practice. Mr. Jin is a director of EGII, which is a controlling shareholder of our 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 our 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 our 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. 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 our 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 Executives

Our senior executive team include Wang Yusuo, Cheung Yip Sang, Yu Jianchao, Cheng Chak Ngok, Zhao Shengli and Wang Dongzhi. See "– Executive Directors" for the description of their experience. In addition, our senior executive team also includes Han Jishen, Cai Fuying, Liu Yongxin, Chen Fuchao, Yang Jun, Wang Fengsheng, Wu Xingjun, Xu Jinbiao and Li Shuwang.

The table below sets forth certain information regarding our senior executives, excluding Executive Directors:

Name	Age	Position
Mr. HAN Jishen	46	Vice President
Ms. CAI Fuying	46	Vice President
Mr. LIU Yongxin	48	Vice President
Mr. CHEN Fuchao	54	Vice President and General Manager – Zhejiang and Shanghai areas
Mr. YANG Jun	36	Vice President and General Manager of Energy Supply Coordination Centre
Mr. WANG Fengsheng	41	Vice President and General Manager – Jiangsu region
Mr. WU Xingjun	46	Vice President and General Manager – Henan and Anhui areas
Mr. XU Jinbiao	44	Vice President
Mr. LI Shuwang	45	Chief Engineer

Mr. HAN Jishen, aged 46, is the Vice President of our Company responsible for assisting the Chief Executive Officer and General Manager with market expansion. He joined our Group in 1993 and graduated from the Baodin Staff University in 1990 and received an executive master's degree in business administration from the Nanyang Technological University in Singapore in 2007. Mr. Han has over 18 years of experience in the PRC gas fuel industry.

Ms. CAI Fuying, aged 46, is the Vice President of our Company. She joined our Company in 1993 and is responsible for the risk management and administrative affairs of our Company. Prior to joining our Company, 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 our 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. He was recently awarded the doctor of philosophy in finance and investment management from the Sun Yat-sen University. Prior to joining our Group in 2008, he worked at Exxon Mobil and BP holding various positions in the marketing, operation and business development departments. Mr. Liu has accumulated over 18 years of experience in operation, marketing and corporate governance in the energy sector.

Mr. CHEN Fuchao, aged 54 is the Vice President and the General Manager – Zhejiang and Shanghai areas for our 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 an executive master's degree in business administration from the Xiamen University. Prior to joining our 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 our Company and the General Manager of the Energy Supply Coordination Centre. Mr. Yang joined us 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 our Company. He joined our Company in 1999 and is responsible for assisting the Chief Executive Officer and the Chief Operations Officer in project management. Prior to joining us, 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 our Company. He joined our Company 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 us, 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 our Company responsible for information system management. He joined us 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 our Company, 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 our 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 us 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.

Company Secretary

Mr. CHENG Chak Ngok, See "– Executive Directors" for a description of Mr. Cheng's experience.

Directors' Remuneration

The directors' emoluments are subject to the recommendations of the remuneration committee and the approval of our Board of Directors, or the Board. The emoluments are determined by the Board with reference to directors' duties, responsibilities and performance and the results of our Company.

During the years ended December 31, 2008, 2009 and 2010, the aggregate amount of remuneration paid by us to our directors was RMB12.8 million, RMB9.1 million and RMB52.1 million, respectively.

Board Committees

Audit Committee

The responsibilities of the Audit Committee include monitoring the integrity of the financial statements of our Company (including its annual and interim reports and accounts, preliminary results announcements and any other formal announcements relating to its financial performance); reviewing significant financial reporting issues and judgments thereof before the financial statements are submitted to the Board; reviewing the effectiveness of our Company's financial controls, internal controls and risk management systems; assessing the independence and objectivity of the external auditors.

In discharging its duties, the Audit Committee is provided with sufficient resources and is authorized by the Board to obtain outside legal or other independent professional advice at our expense on any matters within its terms of reference which have been published on our websites (http://www.irasia.com/listco/hk/ennenergy and http://www.xinaogas.com).

The Audit Committee consists of three members all of whom are independent non-executive directors. Mr. Wang Guangtian is the Chairman and the two other members are Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau. Three Audit Committee meetings were held during the year ended December 31, 2010 with full attendance. Among other things, the Audit Committee discussed and reviewed financial reporting matters, including our interim and annual consolidated financial statements and reports before these statements and reports were submitted to the Board for approval; assessed the effectiveness of the audit process of the external auditors; reviewed the annual audit plan submitted by the internal audit department; and reviewed the effectiveness of the internal control system.

Remuneration Committee

The Remuneration Committee undertakes to, among other matters, make recommendations to the Board about the framework or broad policy and structure for the remuneration of the Chief Executive Officer, Chairman, executive directors and senior management of our Company with the objective of ensuring that such persons are provided with appropriate incentives to encourage enhanced performance and to reward individual contributions to the success of our Company. The Remuneration Committee also determines, within the terms of the policy adopted by the Board and in consultation with the Chairman and Chief Executive Officer as appropriate, the individual specific remuneration package of each executive director and member of senior management including benefits in kind, pension rights, bonuses, incentive payments, share options and compensation payments, including any compensation payable for loss or termination of their office or appointment.

No director or manager shall be involved in any decisions as to their own remuneration. The remuneration of a non-executive director who is a member of the Remuneration Committee shall be a matter for other members of the Remuneration Committee. The Remuneration Committee's terms of reference have been posted on our website (http://www.xinaogas.com).

The Remuneration Committee consists of four members, the majority of which should be independent non-executive directors. Mr. Yu Jianchao, our Executive Director, is the chairman of the Remuneration Committee. The three independent non-executive member of the committee are: Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau. Two Remuneration Committee meetings were held during the financial year ended December 31, 2010. At the meetings, the Remuneration Committee reviewed matters relating to the remuneration for the directors and senior management, discussed the remuneration policy and the overall level of increment applicable to our employees.

Directors' Interests

As of December 31, 2010, the interests and short positions of the directors of our Company in the shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, or Model Code, Appendix 10 to the Listing Rules of the Hong Kong Stock Exchange, were as follows:

Name of Director	Capacity	Interest in Shares: Personal interests	Interest in Shares: Corporate interests	Interest in Shares: Family interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of our Company's total issued share capital as at June 30, 2010
Mr. Wang	Beneficial owner and interest of controlled corporation	596,000[(2)]	326,095,000[(1)]		326,691,000	1,000,000[(3)]	327,691,000	31.20%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of controlled corporation and interest of spouse	–	326,095,000[(1)]	596,000[(2)]	326,691,000	1,000,000[(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%

(1) The two references to 326,095,000 shares relate to the same block of shares. Such shares are held by 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 June 14, 2010, Mr. Wang and Ms. Zhao were granted 800,000 and 200,000 share options, respectively, by our 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.

Director's Right to Acquire Shares

We adopted a share option scheme pursuant to an ordinary resolution passed at an extraordinary general meeting held on May 21, 2002.

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

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

Pursuant to our share option scheme, we have granted options to subscribe for our ordinary shares in favor of certain Directors, the details of which are the follows:

Name of Director	Date of Grant	Exercise Period[(1)]	Exercise price (HK$)[(2)]	Number of shares subject to outstanding options as at January 1, 2010	Number of options granted during the Period[(3)]	Number of shares subject to outstanding options as at June 30, 2010 (Aggregate)	Approximate percentage of our Company's total issued share capital as at June 30, 2010 (Aggregate)
Mr. Wang	06/14/2010	12/14/2010 – 06/14/2020	16.26	–	400,000[(4)]	800,000	0.08%
	06/14/2010	14.06.2012 – 06/14/2020	16.26	–	400,000[(4)]		
Ms. Zhao	06/14/2010	12/14/2010 – 06/14/2020	16.26	–	100,000[(4)]	200,000	0.02%
	06/14/2010	14.06.2012 – 06/14/2020	16.26	–	100,000[(4)]		
Mr. Cheung Yip Sang	06/14/2010	12/14/2010 – 06/14/2020	16.26	–	1,950,000	3,900,000	0.37%
	06/14/2010	14.06.2012 – 06/14/2020	16.26	–	1,950,000		
Mr. Zhao Jinfeng	06/14/2010	12/14/2010 – 06/14/2020	16.26	–	1,180,000	2,360,000	0.22%
	06/14/2010	14.06.2012 – 06/14/2020	16.26	–	1,180,000		
Mr. Yu Jianchao	06/14/2010	12/14/2010 – 06/14/2020	16.26	–	1,800,000	3,600,000	0.34%
	06/14/2010	14.06.2012 – 06/14/2020	16.26	–	1,800,000		
Mr. Cheng Chak Ngok	06/14/2010	12/14/2010 – 06/14/2020	16.26	–	225,000	450,000	0.04%
	06/14/2010	14.06.2012 – 06/14/2020	16.26	–	225,000		
Mr. Liang Zhiwei	06/14/2010	12/14/2010 – 06/14/2020	16.26	–	625,000	1,250,000	0.12%
	06/14/2010	14.06.2012 – 06/14/2020	16.26	–	625,000		
Ms. Zhai Xiaoqin	06/14/2010	12/14/2010 – 06/14/2020	16.26	–	625,000	1,250,000	0.12%
	06/14/2010	14.06.2012 – 06/14/2020	16.26	–	625,000		
Mr. Jin Yongsheng	06/14/2010	12/14/2010 – 06/14/2020	16.26	–	200,000	400,000	0.04%
	06/14/2010	14.06.2012 – 06/14/2020	16.26	–	200,000		
Mr. Wang Guangtian	06/14/2010	12/14/2010 – 06/14/2020	16.26	–	100,000	200,000	0.02%
	06/14/2010	14.06.2012 – 06/14/2020	16.26	–	100,000		
Ms. Yien Yu Yu, Catherine	06/14/2010	12/14/2010 – 06/14/2020	16.26	–	100,000	200,000	0.02%
	06/14/2010	14.06.2012 – 06/14/2020	16.26	–	100,000		
Mr. Kong Chung Kau	06/14/2010	12/14/2010 – 06/14/2020	16.26	–	100,000	200,000	0.02%
	06/14/2010	14.06.2012 – 06/14/2020	16.26	–	100,000		
Total				–	14,810,000	14,810,000	

(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 period was HK$16.22.

(3) "Period" refers to the period from January 1, 2010 to June 30, 2010.

(4) On June 14, 2010, Mr. Wang and Ms. Zhao were granted 800,000 and 200,000 share options respectively by our 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.

PRINCIPAL AND SUBSTANTIAL SHAREHOLDERS

As of the date of this offering memorandum, the interests and short positions of every person, other than our directors, in the shares and underlying shares of our Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholder	Capacity	Interest in Shares: Personal interests	Interest in Shares: Corporate interests	Interest in Shares: Family interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of our Company's total issued share capital as at June 30, 2010
Mr. Wang	Beneficial owner and interest of controlled corporation	596,000[2]	326,095,000[1]		326,691,000	1,000,000[3]	327,691,000(L)	31.20%
Ms. Zhao	Interest of controlled corporation and interest of spouse	–	326,095,000[1]	596,000[2]	326,691,000	1,000,000[3]	327,691,000(L)	31.20%
EGII[5]	Beneficial owner	–	326,095,000[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/ approved lending agent	–	63,120,497	–	63,120,497	–	63,120,497(L) (including 59,677,441(P))	6.01%

(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 June 14, 2010, Mr. Wang and Ms. Zhao were granted 800,000 and 200,000 share options respectively by our 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.

(5) EGII is owned as to 50% by Mr. Wang and 50% by Ms. Zhao.

RELATED PARTY TRANSACTIONS

We enter into transactions with certain of our subsidiaries, investee companies and other related parties in the ordinary course of business. It is our policy to conduct these transactions on normal commercial terms and on an arm's-length basis.

As a listed company on the Hong Kong Stock Exchange, we are subject to the requirements of Chapter 14A of the Listing Rules, which require certain "connected transactions" with "connected persons" be approved by a company's independent shareholders. Each of our related party transactions disclosed hereunder that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or otherwise exempted from compliance under Chapter 14A of the Listing Rules.

The following table sets forth our material transactions between us with our related parties for the periods indicated:

	Year ended December 31,		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Nature of Transaction			
Associates:			
Sales of gas to	32,397	2,768	6,587
Sales of materials to	3,082	4,135	3,503
Provision of gas transportation services to	11,748	11,697	8,103
Provision of gas transportation services by	–	–	147
Purchase of materials from	2,404	2,337	3,335
Purchase of gas from	28,001	16,345	39,259
Loan interest received from	8,819	–	–
Jointly controlled entities:			
Sales of gas to	223,973	163,385	267,178
Sales of materials to	63,338	66,136	101,619
Purchase of gas from	136,047	198,071	244,070
Provision of gas transportation services to	179,869	231,351	180,972
Loan interest received from	5,735	4,933	420
Purchase of material – DME from	3,197	–	–
Payment made on behalf of our Group	2,866	3,461	1,792
Provision of gas connection services to	–	25,694	35,991
Provision of support services by	–	1,158	7,579
Companies controlled by Mr. Wang:			
Sales of gas to	2,021	2,606	4,597
Purchase of land from	–	–	32,900
Purchase of property from	–	–	50,000
Purchase of materials from	–	36	2,093
Purchase of vehicles from	–	120	2,887
Purchase of materials – DME from	288,210	12,263	10,431
Provision of gas connection service to	2,170	5,519	449
Provision of construction service by	–	–	29,407
Provision of property management services by	4,419	4,320	4,823
Provision of property management services to	436	436	436
Provision of decoration services by	3,500	–	–
Lease of premises to	1,039	1,039	1,039
Lease of premises from	2,596	2,596	2,596
Provision of supporting services by	20,117	22,071	28,722
Provision of maritime transportation services by	–	18,874	16,800
Donated to charity[(1)]	4,880	–	–

	Year ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Non-controlling shareholders of subsidiaries:			
Provision of gas connection service to	1,546	–	2,476
Purchase of land from	–	–	13,159
Provision of construction service by	1,788	1,860	1,948
Loan advance to	2,775	979	379
Lease of premises from	1,244	1,496	1,494
Lease of land from	3,520	1,572	766
Provision of transportation services by	901	920	1,290
Interest receive from	–	550	–
Purchase of gas from	–	1,505	2,727
Compensation of key management personnel of the Company:			
Short-term employee benefits	9,690	8,939	7,262
Post-employment benefits	104	111	84
Share based payments	2,965	–	44,801
Total	12,759	9,050	52,147

(1) Donation is made to a non-profit organization, Xinao Charity Foundation (新奧慈善基金會), of which Mr. Wang was the legal representation up to April 2009.

Mr. Wang, the chairman, an Executive Director and a controlling shareholder of our Company as of the date hereof, and/or various of Mr. Wang's associates is/are entitled to the exercise of 30% or more of the voting power at any general meeting of various companies, a Wang Family Company or the Wang Family Companies. The "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, our chairman, an executive director and a controlling shareholder of our Company, and/or his associates (including Ms. Zhao, a non-executive director and a controlling shareholder of our Company and the spouse of Mr. Wang), thereby being connected persons of our Company.

Continuing Related Party Transactions

The following is a brief description of our major continuous related party transactions in 2010:

Master Property Management Services Agreement

- **Current transaction:** On December 31, 2010, we entered into a property management service agreement with one or more Wang Family Companies, pursuant to which such company, or companies, will provide us with property management services, including, but not limited to, maintenance, security, and hygiene management services to certain properties situated in China that are owned, leased or operated by us. This agreement commenced on January 1, 2011 and is for a term of three years.

- **Historical transaction amounts:** The annual property management fees payable by us to the Wang Family Company for the three financial years ended December 31, 2008, 2009 and 2010 were RMB4,419,000, RMB4,320,000 and RMB4,823,000, respectively. For each of these periods, the annual caps for such annual property management fees were set at RMB6.0 million.

- **Annual caps and basis of caps:** We expect that the aggregate property management fees payable by us to the Wang Family Company for the three years ending December 31, 2011, 2012 and 2013 will not exceed RMB13.0 million, RMB14.0 million and RMB14.0 million, respectively. The annual caps are determined by multiplying the total floor area to be covered by the property management services by the respective market rate. The increase in the amount of the annual caps when compared with the above historical annual caps is due to the increase in labor, welfare and maintenance costs resulting from the continuous inflation experienced in China during these years as well as to the increase in the applicable floor area.

Master Supporting Services Agreement

- **Current transaction:** On December 31, 2010, we entered into a supporting services agreement with a Wang Family Company, pursuant to which such company will provide us with supporting services, including, but not limited to, catering, training of employees, information technology support and maintenance, legal, administrative and traveling services. This agreement commenced on January 1, 2011 and is for a term of three years.

- **Historical transaction amounts:** The annual supporting services fees payable by us to the Wang Family Company for the three years ended December 31, 2008, 2009 and 2010 were RMB20,117,000, RMB22,071,000 and RMB28,722,000, respectively. For each of these periods, the caps for such supporting services fees were set at RMB35.0 million, RMB46.0 million and RMB53.0 million, respectively.

- **Annual caps and basis of caps:** We expect that the aggregate supporting services fees payable by us to the Wang Family Company for the three years ending December 31, 2011, 2012 and 2013 will not exceed RMB78.0 million, RMB92.0 million and RMB110.0 million, respectively. The annual caps are based on the estimated usage after taking into account the estimated cost of resources to be incurred, including labor and other raw materials. The increase in the amount of the annual caps when compared with the above historical annual caps is mainly due to the addition of new support of traveling services. In the past, we booked airline tickets from third parties.

Master Maritime Transportation Service Agreement

- **Current transaction:** On December 31, 2010, we entered into a maritime transportation service agreement with the Wang Family Company, pursuant to which such company will provide us with maritime transportation services in connection with the transportation of energy, including, but not limited to, LPG, CNG and LNG. This agreement commenced on January 1, 2011 and is for a term of three years.

- **Historical transaction amounts:** The annual supporting service fees payable by us to the Wang Family Company for the years ended December 31, 2009 and 2010 were RMB18,874,000 and RMB16,800,000, respectively. For the same periods, the caps for such supporting services fees were set at RMB81,120,000 and RMB139,920,000, respectively.

- **Annual caps and basis of caps:** We expect that the aggregate maritime transportation services fees payable by us to the Wang Family Company for the three years ending December 31, 2011, 2012 and 2013 will not exceed RMB24.0 million, RMB27.0 million and RMB30.0 million, respectively. The annual caps are based on our projections regarding the volume of gas requiring maritime transportation services to different locations in China and the estimated market rates for transportation services during such periods. The decrease in the amount of annual caps when compared with the above historical annual caps is mainly due to the reduction in scale of our bottled LPG business.

Master Energy Technology Supporting Services Agreement

- **Current transaction:** On December 31, 2010, we entered into an energy technology supporting services agreement with the Wang Family Company, pursuant to which such company will provide us with energy technology supporting services, including, but not limited to, solutions, project development, sub-contracting (construction services related), operational guidance, basic management and related training. This agreement commenced on January 1, 2011 and is for a term of three years.

- **Annual caps and basis of caps:** We expect that the aggregate energy technology supporting services fees payable by us to the Wang Family Company for the three years ending December 31, 2011, 2012 and 2013 will not exceed RMB30.0 million, RMB45.0 million and RMB68.0 million, respectively. The annual caps are based on projections regarding the volume of energy management services provided by Wang Family Companies and the estimated services fees for such periods.

One-off Related Party Transactions

Acquisition of land use rights

On December 9, 2010, Xinao Energy Logistics Company Limited, or Xinao Energy, one of our wholly owned subsidiaries, entered into a sale and purchase agreement with Xinao Technology Industry Company Limited, or Xinao Technology, a Wang Family Company, pursuant to which Xinao Energy agreed to purchase, and Xinao Technology agreed to sell, certain property comprising the land use rights of and various structures, including roads, cemented ground, sewage systems, embedded pipes, special pipelines and greening landscapes, on a parcel of land in the Langfang Economic and Technical Development Zone, Hebei, PRC. The property is vacant and zoned for industrial use. The consideration for the property under the sale and purchase agreement is RMB32.9 million. We intend to construct an office building on the property and develop it into a PRC logistics center and a gas research and development center.

Establishment of joint venture company in China

On July 26, 2010, Zhanjiang Xinao Gas Company Limited, or Zhanjiang Xinao, one of our non wholly owned subsidiaries, entered into a co-operation agreement and articles of association with Zhanjiang Jinhao Real Estate Development Company Limited and Langfang Xinao Property Development Company Limited, a Wang Family Company, in connection with the establishment of a joint venture company for the purpose of developing and managing real estate (including construction of related infrastructure thereon) and the leasing of self-owned properties.

Acquisition of land use rights and building ownership rights

On April 13, 2010, Xinao China Gas Investment Company Limited, or Xinao China, one of our wholly owned subsidiaries, entered into a sale and purchase agreement with Xinao Technology, a Wang Family Company, pursuant to which Xinao China agreed to purchase, and Xinao Technology agreed to sell, the land use rights and building ownership rights of property, including an office block, in the Langfang Economic and Technical Development Zone for an aggregate consideration of RMB50.0 million. We plan to use the property as an office block.

Provision of services

On April 13, 2010, Langfang Xinao Gas Company Limited, one of our wholly owned subsidiaries, entered into a service contract with Langfang Xinao Solar Energy Integration Company Limited, a Wang Family Company, pursuant to which for a fee of RMB29.0 million, ENN Solar will provide services in relation to the design and installation of a solar power system for Langfang Xinao.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing projects and to finance our working capital requirements, we have in the past issued certain debt securities as well as borrowed money from various banks. As of December 31, 2010, our total borrowings, including the 2012 Guaranteed Notes and RMB-denominated short-term debentures, totaled RMB6,262.9 million. We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

2012 Guaranteed Notes

On August 5, 2005, we entered into a trust deed, the 2005 Trust Deed pursuant to which we issued an aggregate principal amount of US$200,000,000 7.375% Guaranteed Notes due 2012. As of December 31, 2010, we had a total amount of US$200,000,000 principal amount of 2012 Guaranteed Notes outstanding. Our 2012 Guaranteed Notes are listed on the Hong Kong Stock Exchange.

Guarantee

The obligations pursuant to the 2012 Guaranteed Notes are guaranteed by certain of our subsidiaries other than our subsidiaries organized under the laws of the PRC, or the 2012 Subsidiary Guarantors. Each of the 2012 Subsidiary Guarantors, jointly and severally, unconditionally and irrevocably guarantee the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under the 2012 Guaranteed Notes.

Interest

The 2012 Guaranteed Notes bear interest at a rate of 7.375% per annum. Interest is payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the 2012 Guaranteed Notes and each of the related guarantees contain certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring additional indebtedness;
- making investments or other specified restricted payments;
- creating, permitting to exist or effecting any restrictions on distributions from restricted subsidiaries;
- issuing guarantees by restricted subsidiaries;
- selling assets;
- issuing or selling capital stock of restricted subsidiaries;
- entering into transactions with affiliates;
- creating liens;
- entering into sale and leaseback transactions;
- making investments in certain subsidiaries; and

- merging or consolidating with another company.

Events of Default

The 2005 Trust Deed contains certain customary events of default, including default in the payment of principal or of any premium on the 2012 Guaranteed Notes when such payments become due and payable, default in payment of interest which continues for 30 days, and other events of default substantially similar to the Events of Default under the Indenture. If an event of default occurs and is continuing, the trustee under the 2005 Trust Deed at its sole discretion may, and if so requested in writing by the holders of at least 25% of the outstanding 2012 Guaranteed Notes, or if so directed by an extraordinary resolution shall (subject to being indemnified and/or secured by the holders to its satisfaction) declare the principal of the 2012 Guaranteed Notes plus any accrued and unpaid interest to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control, we will make an offer to repurchase the outstanding 2012 Guaranteed Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest, if any, to the repurchase date.

Maturity and Redemption

The maturity date of the 2012 Guaranteed Notes is August 5, 2012. At any time prior to the maturity date, we may redeem the 2012 Guaranteed Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2012 Guaranteed Notes, plus a premium and any accrued and unpaid interest to the redemption date.

At any time prior to August 5, 2008, we may redeem up to 35% of the aggregate principal amount of the 2012 Guaranteed Notes originally issued at a redemption price equal to 100% of the principal amount of the 2012 Guaranteed Notes, plus any accrued and unpaid interest to the redemption date, provided that at least US$100 million aggregate principal amount of the 2012 Guaranteed Notes originally issued remains outstanding after each such redemption and any such redemption takes place within 90 days of the closing date of the related sale of the Company's capital stock and subject to certain conditions.

Additionally, if under the 2005 Trust Deed would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2012 Guaranteed Notes in whole, but not in part, at a redemption price equal to 100% of the principal amount of the 2012 Guaranteed Notes, plus any accrued and unpaid interest, subject to certain exceptions.

Concurrent with this offering of Notes, we have issued an irrevocable notice of redemption in respect of 100% of the aggregate principal amount outstanding of the 2012 Guaranteed Notes, which will be redeemed on June 28, 2011 at a redemption price equal to 100% of the aggregate principal amount plus a "make whole" premium and accrued and unpaid interest.

RMB-Denominated Short-Term Debentures

Pursuant to the approval of 2009 No. CP81 issued by the National Association of Financial Market Institutional Investors, or NAFMII dated August 12, 2009, NAFMII approved one of our wholly owned subsidiaries, Xinao (China) Gas Investment Company Limited, or Xinao (China), (新奧(中國)燃氣投資有限公司), to issue short-term debentures with a maximum limit of RMB1.6 billion up to August 12, 2011.

On August 3, 2010, Xinao (China) issued a short-term debenture to a third party with a face value of RMB800.0 million. The debenture is unsecured, carries an interest rate of 3.27% per annum and is payable on August 5, 2011.

Details of the outstanding balance as of December 31, 2010 are as follows:

	December 31, 2008	December 31, 2009	December 31, 2010
	RMB'000	RMB'000	RMB'000
Short-term debentures issued during the year and payable within one year			
Principal	600,000	800,000	800,000
Interest payable	30,043	8,699	10,607
	630,043	808,699	810,607

PRC Bank and Other Loans (Fixed and Floating Rate)

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks and other institutions, including, without limitation, the China Development Bank, Industrial and Commercial Bank of China Limited and Bank of China Limited. These loans are project loans to finance the construction of our projects and have terms ranging from 12 months to 10 years. As of December 31, 2010, the aggregate outstanding amount under these loans totaled approximately RMB3,776.5 million (US$572.2 million), RMB2,161.7 million (US$327.5 million) of which was due within one year and RMB1,614.8 million (US$244.7 million) of which was due after one year. Our project loans are typically secured by land use rights, properties and rights to receive gas connection and gas supply fee income as well guaranteed by certain of our other PRC subsidiaries. The Notes will be structurally subordinated to these loans and any other indebtedness incurred by our PRC subsidiaries.

Interest

The principal amounts outstanding under the project loans generally bear interest at: (i) fixed rates ranging from 3.38% to 7.12% or (ii) floating rates calculated by reference to the relevant bank's benchmark interest rate per annum. Floating interest rates generally are subject to review by the lending banks annually. Interest payments are payable either quarterly, semi-annually and annually and must be made on each payment date as provided in the particular loan agreement. As of December 31, 2010, the weighted average interest rate on the aggregate outstanding amount of our project loans was 4.9% per annum.

Covenants

Under these project loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first obtaining the relevant lenders' prior consent:

- create encumbrances on any part of their property or assets or deal with their assets in a way that may adversely affect their ability to repay their loans;
- grant guarantees to any third parties that may adversely affect their ability to repay their loans;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers and acquisitions and reorganizations; and
- alter the nature or scope of their business operations in any material respect.

Events of Default

The loans contain certain customary events of default, including insolvency and breaches of the terms of the loan agreements. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

Guarantee and Security

Certain of our PRC subsidiaries have entered into guarantee agreements with the PRC banks in connection with some of the project loans pursuant to which these subsidiaries have guaranteed all liabilities of the subsidiary borrowers under these project loans. Further, as of December 31, 2010, RMB1,431.9 million (US$217.0 million) of the loans were secured by land use rights, properties, rights to receive gas connection and gas supply fee income held by the subsidiary borrowers.

Bank of China Syndicated Loan Facility

On November 9, 2009, we entered into a US$150.0 million syndicated loan facility with six banks and financial institutions, with Bank of China (Hong Kong) Limited serving as arranger. The amount of interest to be paid on the outstanding amount of the loan will be the aggregate of (i) the applicable margin of 2.2% per annum and (ii) LIBOR.

The repayment of the loan will be made in three installments. The first payment, which will be in an amount equal to 15% of the aggregate amount of the loans outstanding, is due on November 9, 2011. The second payment, which will be in an amount equal to 25% of the aggregate amount of the loans outstanding, is due on November 9, 2012. The third and last payment, which will be in an amount equal to 60% of the aggregate amount of the loans outstanding, is due on November 9, 2013.

Pursuant to the terms of the Bank of China Syndicated Loan Facility agreement, we have agreed to certain financial covenants, including but not limited to the following, each as defined under the loan facility:

- the Consolidated Tangible Net Worth will at all times be more than RMB3,500,000,000;
- Consolidated Net Total Borrowing shall not at any time exceed 150% of Consolidated Tangible Net Worth;
- the ratio of consolidated EBITDA to Consolidated Interest Expense for any relevant period will be not less than 3.0 to 1.0; and
- Consolidated Secured Debt shall not at any time exceed 40% of Consolidated Total Debt.

As of December 31, 2010, the outstanding balance owed on this facility totaled US$150.0 million.

2018 Corporate Bonds

On February 16, 2011, through Xinao (China), we issued an aggregate principal amount of RMB500.0 million corporate bonds due 2018. The interest rate of the corporate bonds is fixed at 6.45% per annum for the first five years after issuance. On the fifth anniversary of the issue date, we have an option to increase the interest by up to 100 basis points for the remaining two years. Interest is payable once per annum on February 16 of each year, for as long as the corporate bonds are outstanding. The corporate bonds will mature after seven years from the issue date, and are puttable for early redemption at the principal amount upon the fifth anniversary of the issue date.

As of the date of this offering memorandum, we have a total amount of RMB500.0 million principal amount of the corporate bonds outstanding.

DESCRIPTION OF THE NOTES

ENN Energy Holdings Limited (the "Company") will issue the notes (the "Notes") under the Indenture (the "Indenture") between itself and Citicorp International Limited, as trustee (the "Trustee"). The Indenture is unlimited in aggregate principal amount, although the issuance of Notes in this offering will be limited to US$750 million. We may issue an unlimited principal amount of additional notes having identical terms and conditions as the Notes (the "Additional Notes") from time to time.

We will only be permitted to issue such Additional Notes if, at the time of such issuance, we were in compliance with the covenants contained in the Indenture. Any Additional Notes will be issued with no more than *de minimis* original issue discount for U.S. federal income tax purposes or will constitute a qualified reopening for U.S. federal income tax purposes. Any Additional Notes will be part of the same issue as the Notes that we are currently offering and the holders of Additional Notes will vote on all matters with the holders of the Notes.

This description of notes is intended to be a useful overview of the material provisions of the Notes and the Indenture. Since this description of notes is only a summary, you should refer to the Indenture for a complete description of the obligations of the Company and your rights. You will find the definitions of capitalized terms used in this description under the heading "Certain definitions." For purposes of this description of notes, references to "the Company," "we," "our" and "us" refer only to ENN Energy Holdings Limited and not to its subsidiaries.

General

The Notes

The Notes:

- are general unsecured, senior obligations of the Company;
- are limited to an aggregate principal amount of US$750 million, subject to our ability to issue Additional Notes;
- mature on May 13, 2021;
- will be issued in denominations of US$200,000 or higher integral multiples of US$1,000;
- will be represented by one or more registered Notes in global form, but in certain circumstances may be represented by Notes in definitive registered form. See "Description of the book-entry system, delivery and form";
- rank equally in right of payment to any future senior obligations of the Company, without giving effect to collateral arrangements; and
- are expected to be listed on the SGX-ST.

Interest

Interest on the Notes will:

- accrue at the rate of 6.00% per annum;
- accrue from the date of original issuance or, if interest has already been paid, from the most recent interest payment date;

- be payable in cash semi-annually in arrears on May 13 and November 13, commencing on November 13, 2011;
- be payable to the holders of record on the April 28 and October 29 immediately preceding the related interest payment dates; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payments on the notes; paying agents and registrar

We will pay principal of, premium, if any, and interest on the Notes at the office or agency designated by the Company in Dublin (which initially by the Corporate Trust Administration Office of the Paying Agent (as defined below) currently located at Ground Floor, 1 North Wall Quay, Dublin, Ireland, Attention: Agency and Trust-PPA), except that we may, at our option, pay interest on the Notes by check mailed to holders of the Notes at their registered address as it appears in the register of the Notes. We have initially designated Citibank, N.A. London to act as our paying agent (the "Paying Agent"), registrar (the "Registrar") and transfer agent (the "Transfer Agent"). We may, however, change the Paying Agent, Registrar or Transfer Agent without prior notice to the holders of the Notes, and the Company or any of its Subsidiaries may act as Paying Agent, Registrar or Transfer Agent.

We will pay principal of, premium, if any, and interest on, Notes in global form registered in the name of or held by The Depository Trust Company or its nominee in immediately available funds to The Depository Trust Company or its nominee, as the case may be, as the registered holder of such global Note.

Transfer and exchange

A holder may transfer or exchange Notes in accordance with the Indenture. The Registrar, a Transfer Agent or the Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents. No service charge will be imposed by the Company, the Trustee, the Registrar or any Transfer Agent for any registration of transfer or exchange of Notes, but the Company may require a holder to pay a sum sufficient to cover any transfer tax or other governmental taxes and fees required by law or permitted by the Indenture. The Company is not required to transfer or exchange any Note selected for redemption. Also, the Company is not required to transfer or exchange any Note for a period of 15 days before a selection of Notes to be redeemed.

The registered holder of a Note will be treated as the owner of it for all purposes.

Optional redemption

Except as described below, the Notes are not redeemable prior to maturity.

At any time, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If the optional redemption date is on or after an interest record date and on or before the related interest payment date, the accrued and unpaid interest, if any, will be paid to the Person in whose name the Note is registered at the close of business on such record date, and no additional interest will be payable to holders whose Notes will be subject to redemption by the Company.

In the case of any partial redemption, selection of the Notes for redemption will be made by the Trustee in compliance with the requirements, if any, of the principal stock exchange on which the Notes are listed or, if the Notes are not listed, then on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion will deem to be fair and appropriate, although no Note of US$200,000 in original principal amount or less will be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion thereof will be issued in the name of the holder thereof upon cancellation of the original Note.

No partial redemption of any Note will be allowed if it would result in the issuance of a new Note, representing the unredeemed portion, in an amount of less than US$200,000.

The Company is not required to make mandatory redemption payments or sinking fund payments with respect to the Notes.

Optional tax redemption

The Company, including any Successor Company, will be entitled to redeem all, but not part, of the Notes if, as a result of any change in or amendment to the laws, regulations or rulings of any Tax Jurisdiction (as defined below) or any change in the official application or interpretation of such laws, regulations or rulings, which, in the case of the Company, becomes effective on or after the date of this offering memorandum or, in the case of any Successor Company, becomes effective on or after the date such Successor Company assumes responsibility under the Notes (a "Change in Tax Law"), the Company is or would be required, on the next succeeding interest payment date, to pay Additional Amounts with respect to the Notes as described under "– Payment of Additional Amounts," and the payment of such Additional Amounts cannot be avoided by the use of any reasonable measures available to the Company. A measure will not be deemed reasonable to the extent it would cause the Company to incur material amounts of tax or other costs or expenses (either currently or with respect to any reasonably expected future transactions), violate or cause the termination of material contracts or otherwise violate applicable laws or regulations. Further, the Company must deliver to the Trustee at least 30 days before the redemption date, (i) an Officers' Certificate stating that the Company is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to its right so to redeem have been satisfied (including that Additional Amounts cannot be avoided by reasonable measures) and (ii) an Opinion of Counsel of recognized standing to the effect that the Company has or will become obligated to pay Additional Amounts as a result of such Change in Tax Law at the relevant time. The Trustee shall accept such Opinion of Counsel as sufficient evidence of the satisfaction of the conditions precedent described in the Indenture, in which event such Opinion of Counsel shall be conclusive and binding on the holders of the Notes. The Company must also provide the holders with notice of the intended redemption at least 30 days and no more than 60 days before the redemption date, which notice shall specify the redemption date and shall require the Company to redeem the Notes on such date. Notwithstanding the foregoing, no such notice of redemption will be given (i) earlier than 90 days prior to the earliest date on which the Company would be obligated to make such payment or withholding if a payment in respect of the Notes were then due and (ii) unless at the time such notice is given, such obligation to pay Additional Amounts remains in effect. The redemption price will equal the principal amount of the Notes, plus accrued and unpaid interest thereon, if any, to the redemption date and Additional Amounts, if any, then due and which otherwise would be payable.

Any Notes that are redeemed will be cancelled.

Notwithstanding anything to the contrary herein, the Company or a Successor Company may not redeem the Notes in the case that Additional Amounts are payable in respect of PRC withholding tax at a rate of 10% or less solely as a result of the Company or a Successor Company being considered a PRC tax resident under the Enterprise Income Tax Law.

Payment of Additional Amounts

If the Company (including any Successor Company) makes any deduction or withholding for or on account of any taxes, assessments, or other governmental charges imposed by (i) any jurisdiction where the

Company is organized or otherwise considered by a taxing authority to be a resident for tax purposes or any political organization or governmental authority thereof or therein having the power to tax (a "Tax Jurisdiction") or (ii) any jurisdiction from or through which the Company makes a payment on the Notes, or any political organization or governmental authority thereof or therein having the power to tax (each jurisdiction described in clause (i) or (ii) a "Relevant Tax Jurisdiction") in respect of any payments under the Notes, the Company will pay to each holder of a Note, to the extent it may lawfully do so, such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts paid to such holder, after such deduction or withholding, including deduction or withholding on the Additional Amounts, will be not less than the amount specified in such Note to which such holder is entitled; *provided, however*, that the Company will not be required to make any payment of Additional Amounts for or on account of:

(1) any tax, assessment or other governmental charge which would not have been imposed but for (a) the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of a power over, such holder, if such holder is an estate, trust, partnership, limited liability company or corporation) and the Relevant Tax Jurisdiction other than solely by the holding of Notes or by the receipt of principal, premium or interest in respect of the Notes, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or possessor) being or having been a citizen or resident thereof or being or having been present or engaged in trade or business therein or having or having had a permanent establishment therein or (b) the presentation of a Note (where presentation is required) for payment on a date more than 30 days after (x) the date on which such payment became due and payable or (y) the date on which payment thereof is duly provided for, whichever occurs later;

(2) any estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment or other governmental charge;

(3) any tax, assessment or other governmental charge that is imposed or withheld by reason of the failure by the holder or the beneficial owner of the Note to comply with a request of the Company addressed to the holder to provide information, documents or other evidence concerning the nationality, residence or identity of the holder or such beneficial owner, or to make and deliver any declaration or other similar claim (other than a claim for refund of any tax, assessment or other governmental charge withheld or deducted by the Company) or satisfy any information or reporting requirements, which, in each case, is required by a statute, treaty, regulation or administrative practice of the Relevant Tax Jurisdiction as a precondition to exemption from all or part of such tax, assessment or other governmental charge;

(4) any tax, assessment or other governmental charge that is payable otherwise than by any deduction or withholding from any payment of the principal of, or any premium or interest on, a Note;

(5) any tax imposed on, or measured by, net income;

(6) any tax, assessment or other governmental charge required to be deducted or withheld by any Paying Agent from any payment of the principal of, or any premium or interest on, a Note, if such payment can be made alternatively at the holder's option without such deduction or withholding by any other Paying Agent available to such holder at the same time;

(7) any withholding or deduction where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive;

(8) any withholding or deduction that is imposed on a Note that is presented for payment (where presentation is required) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union; or

(9) any combination of the above.

No Additional Amounts will be paid with respect to any payment of the principal of, or any premium or interest on, any Note to any holder who is not the beneficial owner of such payment to the extent such payment would be required by the laws of the Relevant Tax Jurisdiction to be included in the income for tax purposes of the beneficial owner and such beneficial owner would not have been entitled to such Additional Amounts had it been the holder of such Note. The Company will provide the Trustee with the official acknowledgment of the governmental authority or political organization of the Relevant Tax Jurisdiction (or, if such acknowledgment is not available, a certified copy thereof) evidencing the payment of the withholding taxes by the Company. The Company will (i) make any required withholding or deduction and (ii) remit the full amount deducted or withheld to the Relevant Tax Jurisdiction in accordance with applicable law. Copies of such documentation will be made available by the Company to the holders of the Notes or the Paying Agents, as applicable.

The Indenture will further provide that if the Company conducts business in any jurisdiction (an "Additional Tax Jurisdiction") other than a Relevant Tax Jurisdiction and, as a result, is required by the law of such Additional Tax Jurisdiction to deduct or withhold any amount on account of taxes, assessments or other governmental charges imposed by such Additional Tax Jurisdiction from payments under the Notes, which would not have been required to be so deducted or withheld but for such conduct of business in such Additional Tax Jurisdiction, all references in this offering memorandum and in the Indenture to a Relevant Tax Jurisdiction shall be construed to include a reference to such Additional Tax Jurisdiction.

All references in this offering memorandum to principal of, premium, if any, and interest on the Notes will include any Additional Amounts payable by the Company in respect of such principal, such premium, if any, and such interest.

Ranking

The Notes will be general unsecured obligations of the Company that rank senior in right of payment to all existing and future obligations that is expressly subordinated in right of payment to the Notes. The Notes will rank equally in right of payment with all existing and future liabilities of the Company that are not so subordinated and will be effectively subordinated to all of our secured obligations and liabilities of our Subsidiaries. In the event of bankruptcy, liquidation, reorganization or other winding up of the Company or upon a default in payment with respect to, or the acceleration of, any secured obligations, the assets of the Company that secure secured obligations will be available to pay obligations on the Notes only after all such secured obligations have been repaid in full. We advise you that there may not be sufficient assets remaining to pay amounts due on any or all of the Notes then outstanding.

As of December 31, 2010:

- the Company had approximately RMB6,262.9 million of total indebtedness;
- the Company and its subsidiaries had approximately RMB1,431.9 million of secured indebtedness, to which the Notes would be effectively subordinated to the extent of the assets used to secure such assets; and
- the Company's subsidiaries had approximately RMB3.8 billion of indebtedness, to which the Notes would be effectively subordinated.

Repurchase of Notes upon a Change of Control

If a Change of Control occurs, unless the Company has exercised its right to redeem all of the Notes as described under "– Optional redemption," each holder will have the right to require the Company to repurchase all or any part (equal to US$200,000 or a higher integral multiple of US$1,000) of such holder's

Notes at a purchase price in cash equal to 101% of the principal amount of the Notes plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Within 30 days following any Change of Control, unless the Company has exercised its right to redeem all of the Notes as described under "– Optional redemption," the Company will mail a notice (the "Change of Control Offer") to each holder, with a copy to the Trustee, stating:

(1) that a Change of Control has occurred and that such holder has the right to require the Company to purchase such holder's Notes at a purchase price in cash equal to 101% of the principal amount of such Notes plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on a record date to receive interest on the relevant interest payment date) (the "Change of Control Payment");

(2) the repurchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Change of Control Payment Date"); and

(3) the procedures determined by the Company, consistent with the Indenture, that a holder must follow in order to have its Notes repurchased.

On the Change of Control Payment Date, the Company will, to the extent lawful:

(1) accept for payment all Notes or portions of Notes (in denominations of US$200,000 or higher integral multiples of US$1,000) properly tendered pursuant to the Change of Control Offer;

(2) deposit with the relevant Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes so tendered; and

(3) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Company.

A holder will have no right to require the Company to repurchase portions of Notes if it would result in the issuance of new Notes, representing the portion not repurchased, in an amount of less than US$200,000.

The relevant Paying Agent, at the expense of the Company, will promptly mail to each holder of Notes so tendered the Change of Control Payment for such Notes, and the Trustee will promptly upon receipt of a written order from the Company authenticate and mail, at the risk of the holder and the expense of the Company, (or cause to be transferred by book entry) to each holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; *provided* that each such new Note will be in a principal amount of US$200,000 or a higher integral multiple of US$1,000.

If the Change of Control Payment Date is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest, if any, will be paid to the Person in whose name a Note is registered at the close of business on such record date, and no additional interest will be payable to holders who tender pursuant to the Change of Control Offer.

The Change of Control provisions described above will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the holders to require that the Company repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Company will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations described in the Indenture by virtue of the conflict.

The Company's ability to repurchase Notes pursuant to a Change of Control Offer may be limited by a number of factors. Other or future obligations of the Company and its Subsidiaries may also contain prohibitions of certain events that would constitute a Change of Control or require such obligations to be repurchased upon a Change of Control. Moreover, the exercise by the holders of their right to require the Company to repurchase the Notes could cause a default under such obligations, even if the Change of Control itself does not, due to the financial effect of such repurchase on the Company. Finally, the Company's ability to pay cash to the holders upon a repurchase may be limited by the Company's then existing financial resources.

There can be no assurance that sufficient funds will be available when necessary to make any required repurchases. Even if sufficient funds were otherwise available, the terms of other or future obligations may prohibit the Company's prepayment of Notes before their scheduled maturity. Consequently, if the Company is not able to prepay any such other obligations containing similar restrictions or obtain requisite consents, as described above, the Company will be unable to fulfill its repurchase obligations if holders of Notes exercise their repurchase rights following a Change of Control, resulting in a default under the Indenture. A default under the Indenture may result in a cross-default under the terms of other or future obligations.

The Change of Control provisions described above may deter certain mergers, tender offers and other takeover attempts involving the Company by increasing the capital required to effect such transactions. The definition of "Change of Control" includes a disposition of all or substantially all of the property and assets of the Company and its Subsidiaries taken as a whole to any Person other than a Permitted Holder. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the property or assets of a Person. As a result, it may be unclear as to whether a Change of Control has occurred and whether a holder of Notes may require the Company to make an offer to repurchase the Notes as described above. The provisions under the Indenture relative to the Company's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of the holders of a majority in principal amount of the Notes.

Certain covenants

Limitation on liens

So long as any Note remains outstanding (as defined in the Indenture), the Company will not, and the Company will not permit any of its Subsidiaries to, create or permit to subsist any Lien upon the whole or any part of its property or assets, present or future, to secure any Indebtedness (or to secure for the benefit of the holders thereof any guarantee or indemnity in respect thereof) without, in any such case, effectively providing that the Notes will be secured equally and ratably with or prior to such Indebtedness (or such guarantee or indemnity in respect thereof), unless, after giving effect thereto, the aggregate outstanding principal amount of all such secured Indebtedness (including the Attributable Indebtedness of the Sale and Leaseback Transactions set forth below and excluding any Indebtedness permitted to be incurred by clauses (1) through (7) below) would not exceed 10% of the Company's Consolidated Net Tangible Assets.

The foregoing restriction will not apply to

(1) Liens existing on the Issue Date;

(2) Liens on property or assets (including Capital Stock) existing at the time of acquisition thereof by the Company or any Subsidiary, or arising as a result of contractual commitments to grant a Lien relating to such property or assets which existed at the time of acquisition thereof by the Company or any Subsidiary;

(3) Liens on any property or asset of the Company or any Subsidiary securing Indebtedness incurred or assumed for the purpose of financing the purchase price thereof or the cost of construction, improvement or repair of all or any part thereof; *provided* that such Lien attaches to such property or assets concurrently with or within 12 months after the acquisition thereof or completion of construction, improvement or repair thereof;

(4) Liens in favor of the Company;

(5) any Lien arising or already arisen automatically by operation of law which is promptly discharged or disputed in good faith by appropriate proceedings;

(6) Liens on money paid to or money or securities deposited with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the Company in respect of Indebtedness (provided that such money or securities so paid or deposited, and the proceeds therefrom, will be sufficient to pay or discharge such obligations in full); or

(7) any Lien arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by any Lien permitted by any of the foregoing clauses; provided that such Indebtedness is not increased and is not secured by any additional property or assets.

Reports

So long as any of the Notes remain outstanding, the Company will file with the Trustee:

(i) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally recognized firm of independent accountants;

(ii) as soon as they are available, but in any event within 90 calendar days after the end of the first semi-annual fiscal period of the Company, copies of its unaudited financial statements (on a consolidated basis) in respect of such semi-annual period (including a statement of income, balance sheet and cash flow statement) prepared on a basis consistent with the audited financial statements of the Company and reviewed by a member firm of an internationally recognized firm of independent accountants; and

(iii) as soon as possible and in any event within 10 days after the Company becomes aware, or is reasonably expected to become aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and an Officers' Certificate of the Company setting forth the details thereof and the action the Company is taking or proposes to take with respect thereto,

provided that if at any time the Capital Stock of the Company is listed for trading on a recognized stock exchange, the Company will file with the Trustee, as soon as they are available but in any event not more than 10 calendar days after any financial or other reports of the Company are filed with any recognized exchange on which the Company's Capital Stock is at any time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in clauses (i) and (ii) above.

The Company has agreed in the Indenture that, so long as Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will furnish, upon the request of any holder of a Note or of a beneficial interest in a Note, such information as is specified in paragraph (d)(4) of Rule 144A, to such holder or beneficial owner or to a prospective purchaser of a Note or a beneficial interest in a Note who is a qualified institutional buyer within the meaning of Rule 144A, in order to permit compliance by the holder or beneficial owner with Rule 144A in connection with the resale of the Note or beneficial interest in the Note in reliance on Rule 144A.

The foregoing requirement does not apply if, at the time of the request, the Company is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or is included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act and therefore are required to furnish the SEC certain information pursuant to Rule 12g3–2(b) under the Exchange Act. The Company is not, at the date of this offering memorandum, included in such list of foreign private issuers that are exempt from the registration requirements of Section 12(g) of the Exchange Act.

Merger and Consolidation

The Company will not consolidate with or merge with or into, or convey, transfer or lease all or substantially all its property or assets to, any Person, *unless*:

(1) the resulting, surviving or transferee Person (the "Successor Company"), if not the Company, will expressly assume, by supplemental indenture, executed and delivered to the Trustee, all the obligations of the Company under the Notes and the Indenture;

(2) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing; and

(3) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture.

For purposes of this covenant, the conveyance, transfer or lease of all or substantially all of the property or assets of one or more Subsidiaries of the Company, which property or assets, if held by the Company instead of such Subsidiaries, would constitute all or substantially all of the property or assets of the Company on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the property or assets of the Company.

The Successor Company will succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture, and the predecessor company, except in the case of a lease of all or substantially all its assets, shall be released from the obligation to pay the principal of, premium, if any, and interest on the Notes. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any Subsidiary to, enter into any arrangement with any Person providing for the leasing by the Company or its Subsidiaries of any property or assets (other than any such arrangement involving (i) a lease for a term, including renewal rights, of not more than 36 months or

(ii) leases between or among the Company and a Subsidiary or Subsidiaries), which property or asset has been or is to be sold or transferred by the Company or a Subsidiary to such Person (a "Sale and Leaseback Transaction") unless

(a) the Company or such Subsidiary would, at the time of entering into a Sale and Leaseback Transaction, be entitled to Incur Indebtedness secured by a Lien on the property or asset to be leased in an amount at least equal to the Attributable Indebtedness in respect of such transaction without equally and ratably securing the Notes pursuant to the provisions described under "– Limitations on Liens" above, and

(b) the proceeds of the sale of the property or assets to be leased are at least equal to their fair value (the fair value of such proceeds, if other than in cash, to be determined by the chief financial or accounting officer of the Company) and an amount in cash equal to the net proceeds is applied, within 12 months of the effective date of such transaction, to (i) acquire, construct, alter or improve property or assets (or to make investments in entities which, after giving effect to such investment, will become Subsidiaries) or (ii) prepay, repay, redeem, reduce or retire Indebtedness (including, for the avoidance of doubt, the Notes), other than Indebtedness that is expressly subordinated to the Notes.

Payments for consent

Neither the Company nor any of its Subsidiaries will, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fees or otherwise, to any holder of any Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or amendment.

The Company will also agree that, so long as any Notes are outstanding, it will maintain a paying agent in a Member State of the European Union that does not impose an obligation to withhold or deduct tax pursuant to the EC Counsel Directive 2003/48/EC on the taxation of savings income or any other directive implementing the conclusions of the ECOFIN council meeting of November 2-27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced to conform to, such Directive or other directive.

Events of Default

Each of the following is an Event of Default:

(1) default in any payment of interest on any Note when due, continued for 30 days;

(2) default in the payment of principal of, or premium, if any, on any Note when due at its Stated Maturity, upon optional redemption, upon required repurchase, upon declaration or otherwise;

(3) failure by the Company to comply with its obligations under "– Certain covenants – Merger and consolidation";

(4) failure by the Company to comply, for 30 days after written notice by the holders of 25% or more of the aggregate principal amount of the outstanding Notes, with its agreements contained in the Indenture (other than those referred to in clause (3) above);

(5) default under any Indebtedness of the Company or any of its Subsidiaries (or the payment of which is guaranteed by the Company or any of its Subsidiaries), whether such Indebtedness or guarantee now exists, or is created after the date of the Indenture, which default: (a) is caused by a failure to pay principal of, or interest or premium, if any, on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness (the "payment default provision"); or (b) results in the acceleration of such Indebtedness prior to its maturity (the "cross acceleration provision"); and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a payment default or the maturity of which has been so accelerated, aggregates US$20 million (or the Dollar Equivalent thereof) or more;

(6) certain events of bankruptcy, insolvency or reorganization of the Company or any of the Company's Significant Subsidiaries as provided for in the Indenture (the "bankruptcy provisions"); or

(7) failure by the Company or any Subsidiary to pay one or more final judgments from a court of competent jurisdiction aggregating in excess of US$20 million (or the Dollar Equivalent thereof) (net of any amounts that are covered by insurance policies issued by solvent carriers), which judgments are not paid, discharged or stayed for a period of 60 days (the "judgment default provision").

If an Event of Default (other than an Event of Default described in clause (6) above) occurs and is continuing, the Trustee by notice to the Company, or the holders of at least 25% in principal amount of the outstanding Notes by notice to the Company and the Trustee, may, and the Trustee at the request of such holders shall, declare the principal of, premium, if any, and accrued and unpaid interest, if any, on all the Notes to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest will be due and payable immediately. In the event of a declaration of acceleration of the Notes because an Event of Default described in clause (5) under "Events of Default" has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (5) shall be remedied or cured by the Company or a Subsidiary or waived by the appropriate portion of holders of the relevant Indebtedness within 20 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except nonpayment of principal, premium or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived. In the event of any such automatic annulment, the Company shall provide written notice thereof to the Trustee with an Officer's Certificate certifying the matters addressed in (1) and (2) of the preceding sentence. The Trustee may rely upon any such notice and Officer's Certificate and may also assume, in the absence of any such notice and Officer's Certificate, that such automatic annulment has not taken place. If an Event of Default described in clause (6) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest on all the Notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holders.

The holders of a majority in principal amount of the outstanding Notes may waive all past defaults (except with respect to nonpayment of principal, premium or interest) and rescind any such acceleration with respect to the Notes and its consequences if (1) rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the holders unless such holders have offered to the Trustee security or indemnity satisfactory to the Trustee against any cost, loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no holder may pursue any remedy with respect to the Indenture or the Notes *unless*:

(1) such holder has previously given the Trustee written notice that an Event of Default is continuing;

(2) holders of at least 25% in principal amount of the outstanding Notes have requested in writing the Trustee to pursue the remedy;

(3) such holders have offered the Trustee security and/or indemnity satisfactory to the Trustee against any cost, loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the written request and the offer of such security or indemnity; and

(5) the holders of a majority in principal amount of the outstanding Notes have not given the Trustee a direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

Subject to certain restrictions, the holders of a majority in principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Indenture provides that in the event an Event of Default has occurred and is continuing, the Trustee will be required in the exercise of its powers to use the degree of care that a prudent person would use in the conduct of its own affairs. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other holder or that would involve the Trustee in personal liability and may take any other action it deems proper that is not inconsistent with any such direction received from holders. Prior to taking any action under the Indenture, the Trustee will be entitled to indemnification satisfactory to it in its sole discretion against all losses, liabilities and expenses caused by taking or not taking such action.

The Indenture provides that if a Default occurs and is continuing and is known to the Trustee, the Trustee must mail to each holder notice of the Default within 90 days after it receives written notice of the occurrence of any Event of Default or Default. Except in the case of a payment default, the Trustee will not be deemed to have knowledge of any Event of Default or Default unless a responsible officer of the Trustee has received written notice of such Event of Default or Default. In addition, the Company is required to deliver to the Trustee, within 120 days after the end of each fiscal year, a certificate stating that a review has been conducted of the activities of the Company's performance under the Indenture and the Notes and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof.

Amendments and waivers

Subject to certain exceptions, the Indenture and the Notes may be amended or supplemented by the Company and the Trustee with the consent of the holders of a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes) and, subject to certain exceptions, any past default or compliance with any provisions may be waived with the consent of the holders of a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes). However, without the consent of each holder of an outstanding Note affected, no amendment may, among other things:

(1) reduce the principal amount of Notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the stated rate of or extend the stated time for payment of interest on any Note;

(3) reduce the principal of or extend the Stated Maturity of any Note;

(4) reduce the premium payable upon the redemption or repurchase of any Note or change the time at which any Note may be redeemed or required to be repurchased as described above under "– Optional redemption" or "– Repurchase of Notes upon a Change of Control," whether through an amendment or waiver of provisions in the covenants, definitions or otherwise;

(5) make any Note payable in money other than that stated in the Note;

(6) impair the right of any holder to receive payment of principal of, premium, if any, and interest on such holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such holder's Notes; or

(7) make any change in the amendment provisions which require each holder's consent or in the waiver provisions.

Notwithstanding the foregoing, without the consent of any holder, the Company and the Trustee may amend the Indenture and the Notes to:

(1) cure any ambiguity, omission, defect or inconsistency;

(2) provide for the assumption by a successor corporation of the obligations of the Company (or any previous successor corporation) in accordance with and under the Indenture;

(3) provide for uncertificated Notes in addition to or in place of certificated Notes;

(4) add Guarantees with respect to the Notes;

(5) secure the Notes;

(6) add to the covenants of the Company for the benefit of the holders or surrender any right or power conferred upon the Company;

(7) make any change that does not materially adversely affect the rights of any holder;

(8) provide for the issuance of Additional Notes in accordance with the Indenture; or

(9) provide for the appointment of a successor trustee, *provided* that the successor trustee be otherwise qualified and eligible to act as such under the terms of the Indenture.

The consent of the holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Indenture by any holder of Notes given in connection with a tender of such holder's Notes will not be rendered invalid by such tender. After an amendment under the Indenture becomes effective, the Company is required to mail to the holders a notice briefly describing such amendment. However, the failure to give such notice to all the holders, or any defect in the notice, will not impair or affect the validity of the amendment.

Defeasance

The Company may at any time terminate all its obligations under the Notes and the Indenture ("legal defeasance"), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the Notes, to pay Additional Amounts to replace mutilated, destroyed, lost or stolen Notes and to maintain a Registrar and Paying Agent in respect of the Notes. The Company may at any time terminate its obligations under covenants described under "– Certain covenants" (other than "– Merger and consolidation"), the operation of the cross acceleration provisions and the judgment default provision described under "– Events of default" above and the limitations contained in clause (3) under "– Certain covenants – Merger and consolidation" above ("covenant defeasance"). The Company may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Company exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect to the Notes. If the Company exercises its covenant defeasance option, payment of the Notes may not be accelerated because of an Event of Default specified in clauses (5) or (7) under "– Events of Default" above. In order to exercise either defeasance option, the Company must irrevocably deposit in trust (the "defeasance trust") with the Trustee money or U.S. Government Obligations sufficient for the payment of principal, premium, if any, interest and any Additional Amounts known at such time on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of an Opinion of Counsel to the effect that the defeasance trust complies with the Indenture and to the effect that holders of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred. In the case of legal defeasance only, such Opinion of Counsel must be based on a ruling of the U.S. Internal Revenue Service or other change in applicable U.S. federal income tax law. If the legal defeasance option is exercised and complies with all necessary conditions, holders of the Notes would have to rely solely on the trust deposit for the payment of the Notes and could not look to the Company for payment in the event of any shortfall.

No personal liability of directors, officers, employees and stockholders

No director, officer, employee, incorporator or stockholder of the Company or any successor thereto, as such, shall have any liability for any obligations of the Company as applicable, under the Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws and it is the view of the SEC that such a waiver is against public policy.

Notice

Notices to holders of Notes will be given by first-class mail postage prepaid to the last addresses as they appear in the Notes register. Notices will be deemed to have been given on the date of their mailing.

Concerning the Trustee and the Paying Agent

Citicorp International Limited is to be appointed by the Company as the Trustee under the Indenture and Citibank, N.A. London is to be appointed by the Company as Registrar, Paying Agent and Transfer Agent with regard to the Notes.

Governing law

The Indenture provides that it and the Notes will be governed by, and construed in accordance with, the laws of the State of New York.

Certain definitions

"Affiliate" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control," when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing; *provided* that beneficial ownership of 10% or more of the Voting Stock of a Person shall be deemed to be control.

"Applicable Premium" means, with respect to a Note at any redemption date, the greater of (1) 1.0% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount of such Note, plus all required remaining scheduled interest payments due on such Note through the Stated Maturity of the Notes (but excluding accrued and unpaid interest to such redemption date), computed using a discount rate equal to the Treasury Rate plus 25 basis points, over (B) the principal amount of such Note on such redemption date.

"Attributable Indebtedness," in respect of a Sale and Leaseback Transaction, means, as of the time of determination, the present value (discounted at the interest rate of the Notes, compounded semi-annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction (including any period for which such lease has been extended).

"Board of Directors" means, as to any Person, the board of directors of such Person or any duly authorized committee thereof.

"Business Day" means any day which is not a Saturday, Sunday or other day on which banking institutions are not required by law or regulation to be open in the Borough of Manhattan, The City of New York.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participation or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"Change of Control" means:

(1) the Permitted Holders are the beneficial owners (as such term is used in Rule 13d-3 of the Exchange Act) of less than 25% of the total voting power of the Voting Stock of the Company;

(2) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined above), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;

(3) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors (together with any new directors whose election or appointment by such Board or whose nomination for election by the shareholders of the Company was approved by a vote of not less than two-thirds of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office;

(4) the merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company, or the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of the Company and its Subsidiaries taken as a whole, to any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) other than Permitted Holders or Wholly Owned Subsidiaries; or

(5) the approval by the stockholders of the Company of a plan or proposal for the liquidation or dissolution of the Company.

"Common Stock" means with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or nonvoting) of such Person's common stock whether or not outstanding on the Issue Date, and includes, without limitation, all series and classes of such common stock.

"Comparable Treasury Issue" means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

"Comparable Treasury Price" means, with respect to any redemption date: (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities;" or (2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

"Consolidated Net Tangible Assets" means, with respect to any Person as of any date of determination, the total assets of such Person and its subsidiaries on a consolidated basis less (1) all liabilities of such Person and its subsidiaries on a consolidated basis and (2) all goodwill, tradenames, trademarks, patents, unamortized debt discounts and financing costs and all similar intangible assets of such Person and its subsidiaries on a consolidated basis, all as of such date and determined in accordance with GAAP.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than US dollars, at any time for the determination thereof, the amount of US dollars obtained by converting such foreign currency involved in such computation into US dollars at the base rate for the purchase of US dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

"GAAP" means, at any time, Hong Kong Financial Reporting Standards as in effect from time to time.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or pay, or to maintain financial statement conditions or otherwise); or

(2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

provided, *however*, that the term "Guarantee" will not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"holder" means a Person in whose name a Note is registered on the Registrar's books.

"Incur" means issue, create, assume, Guarantee, incur or otherwise become liable for; and the terms "Incurred" and "Incurrence" have meanings correlative to the foregoing.

"Indebtedness" means, with respect to any Person on any date of determination (without duplication), any outstanding indebtedness for or in respect of money borrowed (including bonds, debentures, notes or other similar instruments, whether or not listed); *provided* that Indebtedness shall not include any Indebtedness denominated in Renminbi that has a final maturity of less than one year from its date of incurrence or issuance.

"Issue Date" means May 13, 2011.

"Lien" means any mortgage, pledge, encumbrance, lien, charge or other security interest of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"Officer" means the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer or the Secretary of the Company.

"Officers' Certificate" means a certificate signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Secretary of the Company.

"Opinion of Counsel" means a written opinion from legal counsel which is acceptable to the Trustee. The counsel may be an employee of or counsel to the Company or the Trustee.

"Permitted Holders" means Mr . Wang Yusuo and Ms. Zhao Baoju and any Affiliate of any of them.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity.

"Preferred Stock," as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation.

"Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Company, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Company by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

"SEC" means the United States Securities and Exchange Commission.

"Significant Subsidiary" means any Subsidiary that would be a "significant subsidiary" of the Company within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC; *provided* that in each instance in such definition in which the term "10 percent" is used, the term "5 percent" shall be substituted therefor.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but shall not include any contingent obligations to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof.

"Subsidiary" of any Person means (a) any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total ordinary voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or persons performing similar functions) or (b) any partnership, joint venture limited liability company or similar entity of which more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, is, in the case of clauses (a) and (b), at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person. Unless otherwise specified herein, each reference to a Subsidiary will refer to a Subsidiary of the Company.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"U.S. Government Obligations" means securities that are (a) direct obligations of the United States of America for the timely payment of which its full faith and credit is pledged or (b) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depositary receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act), as custodian with respect to any such U.S. Government Obligations or a specific payment of principal of or interest on any such U.S. Government Obligations held by such custodian for the account of the holder of such depositary receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligations or the specific payment of principal of or interest on the U.S. Government Obligations evidenced by such depositary receipt.

"Voting Stock" of a corporation means all classes of Capital Stock of such corporation then outstanding and normally entitled to vote in the election of directors.

"Wholly Owned Subsidiary" means, with respect to a Subsidiary of any Person, a Subsidiary, all the Capital Stock of which (other than directors' qualifying shares) is owned by such Person or one or more Wholly Owned Subsidiaries of such Person.

Notes, Delivery and Form

The Notes sold in offshore transactions in reliance on Regulation S will be initially in the form of one or more Regulation S Global Notes in fully registered form without interest coupons, which will be deposited with Citibank, N.A. London, as custodian for DTC (in such capacity, the "Custodian"), and registered in the name of Cede & Co., as nominee of DTC, for credit to the respective accounts of the purchasers, or to other accounts as they may direct, at Euroclear or Clearstream, each of which is a participant in DTC.

The Notes sold to QIBs in reliance on Rule 144A will be issued initially in the form of one or more Rule 144A Global Notes in fully registered form without interest coupons, which will be deposited with the Custodian and registered in the name of Cede & Co., as nominee of DTC.

The Notes will be issued in minimum denominations of US$200,000 and in integral multiples of US$1,000 in excess of that amount.

The Notes (including beneficial interests in the Global Notes) will be subject to certain restrictions on transfer set forth therein and in the Indenture and will bear a legend regarding such restrictions as set forth under "Transfer Restrictions." Under certain circumstances, transfers may be made only upon receipt by the Registrar, a Transfer Agent or the Trustee of a written certification (in the form(s) provided in the Indenture).

Beneficial interests in a Rule l44A Global Note may be transferred to a person who takes delivery in the form of an interest in the related Rule l44A Global Note without any written certification from the transferor or the transferee. Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only upon receipt by the Registrar, a Transfer Agent or the Trustee of written certifications (in the form(s) provided in the Indenture) from the transferor to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 under the Securities Act (if available).

Any individual Notes issued in exchange for an interest in a Rule 144A Global Note under the circumstances described under "Individual Notes" below may be transferred only upon receipt by the Registrar, a Transfer Agent or the Trustee of a written certification from the transferor (in the form(s) provided in the Indenture) to the effect that such transfer is being made in accordance with the restrictions on transfer set forth under "Transfer Restrictions," and in the case of any resale other than a "Safe Harbor Resale" as defined under "Transfer Restrictions," the execution and delivery by the transferee of a written certification (also in the form attached to the Indenture and delivery of any additional documents or other evidence (including, but not limited to, an opinion of counsel)) that the Issuer or the Registrar, a Transfer Agent or the Trustee may, in its sole discretion, deem necessary or appropriate to evidence compliance with such transfer restrictions.

Any beneficial interest in one of the Global Notes that is transferred to an entity which takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to have an interest in such Global Note and receive an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other Global Note for as long as it retains such an interest.

Investors may hold their interests in the Global Notes directly through DTC, Clearstream or Euroclear, as the case may be, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Clearstream and Euroclear will hold interests in the Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which are participants in DTC.

Transfers between participants in DTC (the "Participants") will be effected in the ordinary way in accordance with DTC rules. Transfers between participants in Clearstream and Euroclear ("Clearstream Participants" and "Euroclear Participants", respectively) will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Initial settlement for the Notes will be made in same-day funds. So long as DTC continues to act as depositary for the Notes, the Notes will trade in DTC's Same-Day Funds Settlement System and secondary market trading activity in such Notes will settle in immediately available funds.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between DTC, on the one hand, and Clearstream or Euroclear Participants, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be.

Persons who are not Participants may beneficially own interests in the Global Notes held by DTC only through Participants or Indirect Participants (as defined below) (including Euroclear and Clearstream). So long as Cede & Co., as the nominee of DTC, is the registered owner of the Global Notes, Cede & Co. for all purposes will be considered the sole holder of such Notes.

Payment of interest and principal on the Global Notes will be made to Cede & Co., the nominee for DTC, or such other nominee as may be requested by an authorized representative of DTC, as the registered owner of the Global Notes by wire transfer of immediately available funds. None of the Issuer, the Paying Agent or the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

The Issuer has been informed by DTC that upon receipt of any payment of interest on or the principal of the Global Notes, DTC will credit Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the Global Notes as shown on the records of DTC. Payments of interest on and principal of the Notes held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as the case may be, in accordance with the relevant system's rules and procedures. Payments by Participants to owners of beneficial interests in the Global Notes held through such Participants will be the responsibility of such Participants, as is the case with securities held by broker-dealers, either directly or through nominees, for the accounts of customers and registered in "street name."

Because DTC can only act on behalf of Participants, who in turn act on behalf of Indirect Participants and certain banks, the ability of a person having a beneficial interest in the Global Notes to pledge such interest to persons or entities that do not participate in the DTC system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate.

So long as the Notes are represented by Global Notes and such Global Notes are held on behalf of DTC or any other clearing system, such clearing system or its nominee will be considered the sole holder of the Notes represented by the applicable Global Notes for all purposes under the Indenture, including, without limitation, obtaining consents and waivers thereunder, and none of the Paying Agent, the Trustee or the Issuer shall be affected by any notice to the contrary. None of the Paying Agent, the Trustee or the Issuer shall have any responsibility or obligation with respect to the accuracy of any records maintained by any clearing system or any Participant of such clearing system. The clearing systems will take actions on behalf of their Participants (and any such Participants will take actions on behalf of any Indirect Participants) in accordance with their standard procedures. To the extent that any clearing system acts upon the direction of the holders of the beneficial interests in the applicable Global Note and such beneficial holders give conflicting instructions, the applicable clearing system may take conflicting actions in accordance with such instructions.

All interests in the Global Notes, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of their respective systems.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for exchange as described below) only at the direction of one or more Participants and only in respect of the principal amount of the Notes represented by the Global Note as to which such Participant or Participants has or have given such direction.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for the physical movement of certificates.

Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly ("Indirect Participants").

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Paying Agent or the Trustee will have any responsibility for the performance by DTC, Clearstream and Euroclear, or their respective Participants or Indirect Participants, of their respective obligations under the rules and procedures governing their operations.

Individual Notes

If DTC is at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by the Issuer within 90 days or if there shall have occurred and be continuing an event of default (as described below) with respect to the Notes and the Trustee has received a request from the holders of more than 25% in aggregate principal amount of Notes outstanding (as defined in the Indenture) to issue the Notes in certificated form, the Issuer will issue individual Notes in certificated, definitive registered form in exchange for the Global Notes.

Subject to the transfer restrictions set forth on the individual Notes in certificated form, the holder of such individual Notes in certificated form may transfer or exchange such Notes in whole or in part by surrendering them at the Corporate Trust Office. Prior to any proposed transfer of individual Notes in certificated form (other than pursuant to an effective registration statement), the holder may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation to the Registrar, a Transfer Agent or the Trustee as described under "– Notes; Delivery and Form" above. Upon the transfer, exchange or replacement of individual Notes in certificated form not bearing the legend referred to under "Transfer Restrictions", the Trustee will deliver individual Notes in certificated form that do not bear the legend. Upon the transfer, exchange or replacement of individual Notes in certificated form bearing the legend, or upon specific request for removal of the legend on an individual Note in certificated form, the Trustee will deliver only individual Notes in certificated form that bear such legend or shall refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

TAXATION

Certain Cayman Islands, Hong Kong, PRC and U.S. Federal Income Tax Considerations

The following summary of certain Cayman Islands, Hong Kong, PRC and U.S. federal income tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Cayman Islands

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under the laws of the Cayman Islands, payments of interest, additional amounts, if any, principal and premium on the Notes will not be subject to taxation and no withholding will be required on the payment of interest and principal and premium to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty.

No stamp duty is payable in respect of the issue of the Notes. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands.

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from August 29, 2000.

Hong Kong

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes), interest or additional amounts, if any, in respect of the Notes.

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), or the Inland Revenue Ordinance, as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

- a corporation carrying on a trade, profession or business in Hong Kong; or

- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside Hong Kong) of a Note.

PRC Taxation

The following summary of certain PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Taxation on Interest. The New Tax Law, effective January 1, 2008, imposes a tax at the rate of 10% on interest paid to an enterprise holder of Notes that is a "non-resident enterprise" which does not have an establishment or place of business in China or, where despite the existence of establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China, to the extent such interest is sourced within China. Furthermore, according to the Individual Income Tax Law of the PRC, or the Individual Tax Law, an individual holder of Notes who is neither domiciled nor resident in China shall pay a tax at the rate of 20%, or a lower rate of 7% or 10%, subject to the approval of the tax authorities, if there is a bilateral tax arrangement between the PRC and the jurisdiction where such individual holder is domiciled, to the extent such income is sourced within China. Pursuant to these provisions of the New Tax Law and the Individual Tax Law, although the matter is unclear, if we are considered a PRC resident enterprise, interest payable to non-resident enterprise holders and non-resident individual holders of the Notes may be treated as income derived from sources within China and be subject to the PRC withholding tax. We currently do not intend to withhold taxes from interest payments, but there can be no assurance that the PRC income tax authorities will accept our withholding position. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified investors in the Notes.

Taxation on Capital Gains. The New Tax Law impose a tax at the rate of 10% on capital gains realized by an enterprise holder of Notes that is a "non-resident enterprise" which does not have an establishment or place of business in China or, where despite the existence of establishment or place of business in China, the relevant gain is not effectively connected with such establishment or place of business in China, to the extent such capital gains are sourced within China. The Individual Tax Law imposes a tax at the rate of 20% on capital gains realized by a foreign individual who is neither domiciled nor resident in

China; to the extent such capital gains are sourced within China. Pursuant to these provisions of the New Tax Law and the Individual Tax Law, although the matter is unclear, if we are considered a PRC resident enterprise, capital gains realized by non-resident enterprise holders and non-resident individual holders of the Notes may be treated as income derived from sources within China and be subject to PRC withholding tax. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified enterprise investors in the Notes.

Stamp duty. No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside Mainland China) of a Note.

U.S. Federal Income Tax Considerations

Any discussion of tax issues set forth in this offering memorandum was written in connection with the promotion and marketing by the Company and the Initial Purchasers of the transactions described in this offering memorandum. Such discussion was not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding any tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

The following summary describes certain U.S. federal income tax considerations that may be relevant with respect to the acquisition, ownership and disposition of Notes by U.S. Holders (as defined below) that are initial holders of the Notes and that purchase Notes in this offering. This summary only addresses U.S. federal income tax considerations of U.S. Holders that will hold the Notes as capital assets. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Notes. In particular, this summary does not address tax considerations applicable to U.S. Holders that may be subject to special tax rules including, without limitation, financial institutions, insurance companies, dealers or traders in securities or currencies, tax-exempt entities, persons that will hold Notes as part of a "hedging" or "conversion" transaction or as a position in a "straddle" or as part of a "synthetic security" or other integrated transaction for U.S. federal income tax purposes, U.S. persons that have a "functional currency" other than the US dollar, regulated investment companies and certain former citizens or residents of the United States. Further, this summary does not address alternative minimum tax considerations, U.S. state or local tax considerations, U.S. federal estate and gift tax considerations, or any non-U.S. tax considerations.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), the U.S. Treasury regulations promulgated thereunder and judicial and administrative interpretations thereof, as of the date of this offering circular. All of the foregoing are subject to change, which change could apply retroactively and could affect the U.S. federal income tax considerations described below.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of a Note that is: (i) an individual who is a citizen or resident of the United States, as determined for U.S. federal income tax purposes; (ii) a corporation, or other entity treated as a corporation, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) the trust has properly elected to be treated as a U.S. person.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Holders that are partners in partnerships should consult their own tax advisors.

Each prospective investor should consult its own tax advisor with respect to the U.S. federal (including income, estate and gift), state, local, and non-U.S. tax consequences of acquiring, owning and disposing of Notes.

Interest

The gross amount of interest (including additional amounts, if any) received by a U.S. Holder with respect to a Note will be taxable to a U.S. Holder as ordinary interest income at the time it is received or accrued, depending on the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. Interest will be treated as foreign source income for purposes of calculating the U.S. Holder's U.S. foreign tax credit limitation, and generally will be "passive category income" or, in the case of certain U.S. Holders, "general category income."

As described in "– PRC Taxation," if we were deemed to be a resident enterprise under PRC tax law, payments in respect of the Notes might be subject to PRC withholding taxes. For U.S. federal income tax purposes, the amount of interest includible in income with respect to the Notes would include any amounts withheld in respect of PRC taxes. Subject to applicable limitations, PRC income taxes, if any, withheld from payments in respect of the Notes would be creditable against the U.S. Holder's U.S. federal income tax liability. The U.S. foreign tax credit rules are extremely complex. U.S. Holders should consult their tax advisors regarding the availability of U.S. foreign tax credits and the application of the U.S. foreign tax credit rules to their particular situation.

Sale, Exchange, Redemption or Other Disposition of a Note

Upon the sale, exchange, redemption or other taxable disposition of a Note, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference, if any, between the amount realized on such disposition (except to the extent any amount realized is attributable to accrued but unpaid interest, which will be taxable as described under "– Interest" above) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the amount that the U.S. Holder paid to acquire the Note. Such gain or loss will be treated as long-term capital gain or loss if the Note has been held for more than one year at the time of the disposition of the Note. Net long-term capital gains of non-corporate U.S. Holders, including individuals, currently are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Subject to the provisions of any applicable income tax treaty, any gain or loss generally will be U.S. source gain or loss for purposes of calculating the U.S. Holder's U.S. foreign tax credit limitation.

As described in "– PRC Taxation," if we were deemed to be a resident enterprise under PRC tax law, gain from the dispositions of a Note may be subject to PRC income taxes. In that case, a U.S. Holder's amount realized would include the gross amount of the proceeds from the sale, exchange, retirement or other taxable disposition of a Note. U.S. Holders should consult their tax advisors regarding their eligibility for benefits under the income tax treaty between the United States and the PRC and the creditability of any PRC tax imposed on the disposition of a Note in light of their particular circumstances.

Information Reporting and Backup Withholding

Information reporting requirements and backup withholding may apply to certain payments to U.S. Holders of interest on the Notes and to the proceeds of a sale, exchange, redemption or other disposition of a Note. Backup withholding may be required if the U.S. Holder fails (i) to furnish the U.S. Holder's taxpayer identification number, (ii) to certify that such U.S. Holder is not subject to backup withholding or (iii) to otherwise comply with the applicable requirements of the backup withholding rules. Certain U.S. Holders are not subject to the information reporting and backup withholding requirements. Backup withholding is not an additional tax. A U.S. Holder generally may be entitled to a refund or a credit with respect to any amounts withheld under the backup withholding rules, provided that the required information is furnished to the U.S. Internal Revenue Service in a timely manner.

Certain U.S. Holders who are individuals who hold certain foreign financial assets (which may include Notes) may be required to report information relating to such assets, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions). Each U.S. Holder should consult its own tax advisor regarding the effect, if any, of this reporting requirement on its ownership and disposition of Notes.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement between us and Citigroup Global Markets Inc., BOCI Asia Limited, Barclays Bank PLC and The Royal Bank of Scotland plc as the Initial Purchasers, we have agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from us, the principal amount of the Notes set forth opposite its name below.

Initial Purchaser	**Principal Amount of Notes**
Citigroup Global Markets Inc.	US$281,250,000
BOCI Asia Limited	US$281,250,000
Barclays Bank PLC	US$ 93,750,000
The Royal Bank of Scotland plc	US$ 93,750,000
Total	US$750,000,000

Subject to the terms and conditions set forth in the purchase agreement, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the purchase agreement if any of these Notes are purchased. If an Initial Purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting Initial Purchaser may be increased or the purchase agreement may be terminated. The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The issue of the Notes may be cancelled by the Initial Purchasers in certain circumstances at any time up to the time when the proceeds of the issue have been received and the Notes issued. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part. The Initial Purchasers may offer and sell the Notes in various jurisdictions through certain of their affiliates.

We have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

In connection with the offering, each of the Initial Purchasers or any of their respective affiliates acting as an investor for its own account may take up the Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Company and may offer or sell such securities otherwise than in connection with the offering. Accordingly, references in this offering memorandum to the Notes being offered or placed should not be read as including any offering or placement of securities to the Initial Purchasers or any of their respective affiliates acting in such capacity. The Initial Purchasers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Initial Purchasers propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed from time to time without notice by the Initial Purchasers.

Notes Are Not Being Registered

The Notes have not been registered under the Securities Act or any state securities laws. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The Initial Purchasers will not offer or sell the Notes within the United States except to persons they reasonably believe to be qualified institutional buyers. Each of the Initial Purchasers has acknowledged and agreed that, except as permitted by the preceding sentence, it will not offer or sell Notes as part of its distribution at any time within the United States. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

New Issue of Notes

The Notes are a new issue of securities with no established trading market. Approval-in-principle has been received from the SGX-ST for the listing of the Notes on the Official List. The Initial Purchasers have advised us that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities in their sole discretion at any time without any notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Settlement

We expect that delivery of the Notes will be made to investors on or about the closing date specified on the cover page of this offering memorandum, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as "T+5"). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes prior to the delivery of the Notes hereunder will be required, by virtue of the fact that the Notes initially settle in T+5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisors.

No Sales of Similar Securities

The Company has agreed that, for a period of 60 days after the date of this offering memorandum, it will not, without first obtaining the prior written consent of the Initial Purchasers, directly or indirectly, issue, sell, offer to contract or grant any option to sell or otherwise dispose of, any debt securities (including guarantees) that are denominated in a currency in which the Notes are denominated and are substantially similar to the Notes, or any securities that are convertible into, exchangeable for or exercisable for any such debt securities (other than the Notes sold to the Initial Purchasers pursuant to the purchase agreement). The Initial Purchasers in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

Short Positions and Stabilizing Transactions

In connection with the offering, the Joint Stabilizing Managers may purchase and sell the Notes in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing purchases. Short sales involve the sale by the Joint Stabilizing Managers of a greater principal amount of the Notes than they are required to purchase in the offering. The Joint Stabilizing Managers must close out any short position by purchasing the Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions involve bids to purchase the Notes so long as the stabilizing bids do not exceed a specified maximum.

Similar to other purchase transactions, the Joint Stabilizing Managers' purchases to cover the syndicate short sales and stabilizing purchasers may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the Initial Purchasers make any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes.

Notice to Prospective Investors in the United States

The Notes have not been and will not be registered under the Securities Act or any state securities laws and, unless so registered, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. See "Transfer Restrictions" for a description of other restrictions on the transfer of Notes. Accordingly, the Notes are being offered and sold only (1) in the United States to "qualified institutional buyers" in reliance on Rule 144A and (2) outside the United States in offshore transactions in reliance on Regulation S. Resales of the Notes are restricted as described under "Transfer Restrictions."

As used herein, the term "United States" has the meaning given to it in Regulation S.

Notice to Prospective Investors in the United Kingdom

This offering memorandum is for distribution only to persons who (i) fall within Article 43(2)(b) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"); (ii) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Promotion Order, (iii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Promotion Order, (iv) are outside the United Kingdom, or (v) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

Each of the Initial Purchasers has represented, warranted and agreed that:

1. it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

2. it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in the EEA

Selling restrictions under the Prospectus Directive do not apply to offers of Notes to the public in Relevant Member States that have not implemented the 2010 PD Amending Directive because the minimum denomination of the Notes exceeds €50,000 (or equivalent). This provision should be read accordingly.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser has represented and agreed that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

(a) to investors with a minimum total consideration per investor of €50,000 (or equivalent) or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, €100,000 (or equivalent);

(b) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) to fewer than 100, or if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Initial Purchasers; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (d) above shall require the publication by the Company or any Initial Purchaser of a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and the amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Notice to Prospective Investors in Hong Kong

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

The Notes offered in this offering memorandum have not been registered under the Financial Instruments and Exchange Law of Japan. The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

Notice to Prospective Investors in the PRC

This offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. Other than to qualified domestic institutional investors in the PRC, the Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements of the PRC, with the exception of qualified domestic institutional investors in the PRC, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

Notice to Prospective Investors in Singapore

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289 of Singapore) (the "SFA"). Accordingly, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor;

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA); or (in the case of such corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA, or (in the case of such trust), where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) pursuant to Section 276(7) of the SFA.

Notice to Prospective Investors in the British Virgin Islands

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands to subscribe for any of the Notes.

Notice to Prospective Investors in the Cayman Islands

No Notes will be offered or sold to the public in the Cayman Islands.

General

No action is being taken or is contemplated by us or the Initial Purchasers that would permit a public offering of the Notes or possession or distribution of any preliminary offering memorandum or offering memorandum or any amendment thereof, any supplement thereto or any other offering material relating to the Notes in any jurisdiction where, or in any other circumstance in which, action for those purposes is required.

Other Relationships

The Initial Purchasers and their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including financial advisory and investment banking services, for us and our affiliates in the ordinary course of business, for which they received or will receive customary fees and commissions. For example, on November 9, 2009, we entered into a US$150.0 million Syndicated Loan Facility with Bank of China (Hong Kong) Limited, an affiliate of one of the Initial Purchasers, serving as arranger. See ”Description of Other Material Indebtedness – Bank of China Syndicated Loan Facility.”

We and our affiliates may enter into hedging or other derivative transactions as part of our risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

Each purchaser of the Notes will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

1. it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion, and it and any such account (A)(i) is a qualified institutional buyer, and (ii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A, or (B) is purchasing the Notes in an offshore transaction pursuant to Regulation S;

2. it acknowledges that the Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States except as set forth below;

3. it understands and agrees that if in the future it decides to resell, pledge or otherwise transfer any Notes or any beneficial interests in any Notes other than Notes represented by a Regulation S Global Note, such Notes may be resold, pledged or transferred only (A) by an initial investor (i) to the Company or any subsidiary thereof, (ii) to a person whom the seller reasonably believes is a qualified institutional buyer that purchases for its own account or for the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act or (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available) (resales described in subclauses (i) through (iv) of this clause (A), "Safe Harbor Resales"), or (B) by a subsequent investor, in a Safe Harbor Resale or pursuant to any other available exemption from the registration requirements under the Securities Act (provided that, as a condition to the registration of transfer of any Notes otherwise than in a Safe Harbor Resale, the Company or the Trustee may require delivery of any documents or other evidence (including but not limited to an opinion of counsel) that it, in its sole discretion, may deem necessary or appropriate to evidence compliance with such exemption), or (C) pursuant to an effective registration statement under the Securities Act, and in each of such cases, in accordance with any applicable securities laws of any state of the United States and any other jurisdiction;

4. it agrees to, and each subsequent holder is required to, notify any purchaser of the Notes from it of the resale restrictions referred to in clause 3 above, if then applicable;

5. it understands and agrees that (A) Notes initially offered in the United States to qualified institutional buyers will be represented by Rule 144A Global Notes and (B) that Notes offered outside the United States in reliance on Regulation S will be represented by Regulation S Global Notes;

6. it understands that the Notes, other than Notes represented by the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Company:

   "THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, AGREES FOR THE BENEFIT OF THE COMPANY THAT THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) BY AN INITIAL INVESTOR (AS DEFINED BELOW) (1) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (2) SO LONG AS THIS SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE

SECURITIES ACT ("RULE 144A"), TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) (RESALES DESCRIBED IN SUBCLAUSES (1) THROUGH (4) OF THIS CLAUSE (A), "SAFE HARBOR RESALES"), OR (B) BY A SUBSEQUENT INVESTOR, IN A SAFE HARBOR RESALE OR PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT (PROVIDED THAT, AS A CONDITION TO THE REGISTRATION OF TRANSFER OF ANY SECURITIES OTHERWISE THAN IN A SAFE HARBOR RESALE, THE COMPANY OR THE TRUSTEE MAY REQUIRE DELIVERY OF ANY DOCUMENTS OR OTHER EVIDENCE (INCLUDING BUT NOT LIMITED TO AN OPINION OF COUNSEL) THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION), OR (C) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

FOR ALL PURPOSES OF THIS SECURITY, THE TERM "INITIAL INVESTOR" MEANS ANY PERSON WHO, IN CONNECTION WITH THE INITIAL DISTRIBUTION OF THIS SECURITY, ACQUIRES SUCH SECURITY FROM THE COMPANY OR THE INITIAL PURCHASERS (AS SUCH TERM IS DEFINED IN THE INDENTURE) PARTICIPATING IN SUCH DISTRIBUTION OR ANY AFFILIATE OF ANY OF THE FOREGOING.";

7. it understands and agrees that if in the future it decides to resell, pledge or otherwise transfer any Notes represented by Regulation S Global Notes or any beneficial interest in any Notes represented by Regulation S Global Notes, such Notes may be resold, pledged or transferred only in accordance with the requirements of the legends set forth in clause 8 below;

8. it understands that the Notes represented by Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Company:

   "THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION, AND MAY NOT BE TRANSFERRED IN THE UNITED STATES EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS.";

9. it acknowledges that, prior to any proposed transfer of Notes in certificated form or of beneficial interests in Notes represented by a global certificate (in each case other than pursuant to an effective registration statement), the holder of Notes or the holder of beneficial interests in Notes represented by a global certificate, as the case may be, may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation (including but not limited to an opinion of counsel) as provided in the relevant Indenture; and

10. it acknowledges that the Company and the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representation and agreements and agrees that, if any of such acknowledgments, representations or warranties deemed to have been made by virtue of its purchase of Notes are no longer accurate, it shall promptly notify the Company, and if it is acquiring any Notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

For further discussion of the requirements (including the presentation of transfer certificates) under the relevant Indenture to effect exchanges of transfer of interests in Notes represented by a global certificate and of Notes in certificated form, see "Description of the Notes – Notes; Delivery and Form."

RATINGS

The Notes are expected to be rated BBB- by Standard & Poor's, Baa3 by Moody's and BBB by Fitch. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Each such rating should be evaluated independently of any other rating on the Notes, on other securities of ours, or on us. Additionally, we have been assigned a long-term corporate credit rating of BBB- by Standard & Poor's, an issuer rating of Baa3 with a stable outlook by Moody's and expect to be assigned a rating of BBB by Fitch. We cannot assure you that the ratings will be confirmed or that they will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Sidley Austin as to matters of Hong Kong, United States federal and New York law and Maples and Calder as to matters of Cayman Islands law and Commerce & Financial Law Offices as to matters of PRC law. Certain legal matters will be passed upon for the Initial Purchasers by Shearman & Sterling as to matters of United States federal and New York law and Zhong Lun Law Firm as to matters of PRC law.

INDEPENDENT ACCOUNTANTS

Our consolidated financial statements as of and for the years ended December 31, 2009 and 2010 included in this offering memorandum have been audited by Deloitte Touche Tohmatsu, certified public accountants, as stated in their reports appearing herein.

For the purpose of the offers and sales outside the United States in reliance on Regulation S and within the United States to "qualified institutional buyers" in reliance on Rule 144A under the Securities Act, Deloitte Touche Tohmatsu has acknowledged the references to its name and the inclusion of its reports in the form and context in which they are respectively included in this offering memorandum.

GENERAL INFORMATION

Documents Available

For so long as any of the Notes are outstanding, copies of the Indenture may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the paying agent.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the last two financial years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the paying agent.

Clearing Systems and Settlement

The Notes have been accepted for clearance through the facilities of DTC, Euroclear, and Clearstream. Certain trading information with respect to the Notes is set forth below:

	CUSIP	ISIN
Rule 144A Notes	26876F AA0	US26876FAA03
Regulation S Notes	G3066L AA9	USG3066LAA91

Only Notes evidenced by a Global Note have been accepted for clearance through DTC, Euroclear, and Clearstream.

Listing of the Notes

Approval in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any statements made or opinions expressed or reports contained in this offering memorandum. The Notes will be traded on the SGX-ST in a minimum board lot size of US$200,000, or its equivalent in foreign currencies, for so long as the Notes are listed on the SGX-ST. Admission of the Notes to the Official List of, and quotation of the Notes on, the SGX-ST is not to be taken as an indication of the merits of the Company, its associated companies or the Notes.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore where the Notes may be presented or surrendered for payment or redemption in the event that a Global Note is exchanged for definitive Notes. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange will be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN HKFRS AND U.S. GAAP

Our audited consolidated financial statements are prepared and presented in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants and are not intended to present the financial condition, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions, including the United States, other than Hong Kong. HKFRS differs in certain material respects from U.S. GAAP. Certain differences between HKFRS and U.S. GAAP are summarized below. No attempt has been made to quantify the effects of these differences, or the impact that they would have on net income or shareholders' equity under U.S. GAAP. Such summary should not be construed to be exhaustive. Additionally, there are significant differences in financial statement presentation and disclosures that are not identified in this summary. Further, no attempt has been made to identify future differences between HKFRS and U.S. GAAP as the result of prescribed changes in accounting standards. Regulatory bodies that promulgate HKFRS and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify all future differences between HKFRS and U.S. GAAP that may affect our financial statements as a result of transactions or events that may occur in the future.

If we and our subsidiaries prepared a complete reconciliation between HKFRS and U.S. GAAP, additional accounting and disclosure differences might have been revealed.

In making an investment decision, investors must rely on their own examination of us, the financial statements contained in this offering memorandum and the terms of the offering. You should consult your own professional advisors for an understanding of the differences between HKFRS and U.S. GAAP, and how those differences might affect the financial information included herein.

Basis of Consolidation

The consolidated financial statements include all enterprises that the group controls, as defined by HKAS27 – Consolidated and Separate Financial Statements ("HKAS27"). Under HKAS27, control is presumed to exist when a company owns, directly or indirectly, more than one half of the voting power of an enterprise. Control also exists even when the parent owns one half or less of the voting power of an enterprise when there is (a) power over more than one half of the voting rights by virtue of an agreement with other investors; (b) power to govern the financial and operating policies of the enterprises under a statute or an agreement; (c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the enterprise; or (d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body.

Under SIC Interpretation 12: Consolidation – Special Purpose Entities Interpretation, special purpose entities ("SPEs") are consolidated where the substance of the relationship indicates that the SPE is controlled by the enterprise. Indicators of control arise where the SPE conducts its activities on behalf of the enterprise, the enterprise has the decision-making power to obtain the majority of the benefits of the SPE, the enterprise has other rights to obtain the majority of the benefits of the SPE or the enterprise has the majority of the residual or ownership risks of the SPE or its assets.

Under U.S. GAAP, a dual consolidation decision model would be applied. All consolidation decisions would be evaluated under either a "risk and rewards" model or a "voting interest" model. To determine which model applies, an enterprise must first determine whether the entity is a "variable interest entity" following the guidance from FIN 46 (R): Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (the "interpretation"). If an entity was not determined to be a variable interest entity, then the enterprise would generally consolidate such entity under FAS 94 if it has a controlling financial interest in such entity through direct or indirect ownership of a majority voting interest and not consolidate such entity if it does not. In general, a variable interest entity is subject to consolidation pursuant to the interpretation's provisions if it has (1) an insufficient amount of equity for the entity to carry on its principal operations without additional subordinated financial support provided by any parties, (2) a group of equity owners that are unable to make decisions about the entity's activities, or (3) a group of equity owners that do not absorb the entity's losses or receive the entity's benefits. Variable interests can be contractual, ownership or other pecuniary interests in an entity that change with changes in the fair value of that entity's net assets. U.S. GAAP requires consolidation of Variable Interest Entities ("VIE's") in which the Group is the primary beneficiary.

Inventories

Under HKFRS, a write-down of inventories to the lower of cost or market, which is represented by net realizable value, at the close of a fiscal period is a valuation allowance that can be subsequently reversed if the underlying facts and circumstances change.

Under U.S. GAAP, a write-down of inventories to the lower of cost or market, which is represented by the lower of the replacement cost or net realizable value minus normal profit margin, at the close of a fiscal period creates a new cost basis and no upward adjustments can be made subsequently if underlying facts and circumstances change.

Impairment of Assets

Under HKFRS, at each balance sheet date, if there is an indication of impairment of an asset, the recoverable amount of such asset is estimated and an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment losses are recognized in profit or loss. Reversals of prior provision of impairment losses are allowed if the circumstances and events which led to the write-down cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future.

U.S GAAP requires an impairment loss to be recognized for non-current assets, including property, plant and equipment and certain identifiable intangible assets when a triggering event occurs and the carrying amount of the asset exceeds the future undiscounted cash flows expected to result from the use and eventual disposal of the assets. If it is determined that the asset is impaired, the impairment loss recognized is the difference between the carrying amount of the asset and its fair value based on the quoted market value less selling costs, if available. If the quoted market value is not available, an estimate of fair value will be based on various valuation methods, including the sum of future discounted cash flows and fundamental analysis. Once an impairment of asset is recorded, subsequent reversal of impairment charges cannot be made.

Capitalization of Borrowing Costs

Under HKFRS, borrowing costs incurred in relation to specified loans for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for its intended use.

Under U.S. GAAP, borrowing costs that are incurred prior to the asset being ready for its intended use and that could have been avoided if the expenditures for the qualifying asset had not been made, are capitalized.

Deferred Income Taxes

Under HKFRS, deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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.

Under U.S. GAAP, deferred tax assets and liabilities are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. A valuation allowance is provided to reduce the amount of deferred tax assets if, in the opinion of management, it is considered more likely than not that some portion of, or all of, the deferred tax asset will not be realized in the future.

Cash Flow Statement

Under HKFRS, interest paid and dividends and interest received may be classified as cash flows from operating, investing or financing activities.

U.S. GAAP requires interest paid and dividends and interest received be classified as cash flows from operating activities only.

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Page references included in the consolidated financial statements for each of the years ended December 31, 2009 and 2010 set forth below refer to pages in such consolidated financial statements as set forth in our annual reports for the years ended December 31, 2009 and 2010, as the case may be. These annual reports are not incorporated by reference herein and do not form part of this offering memorandum.

Audited Financial Statements as of and for the year ended December 31, 2010

Audited Financial Statements as of and for the year ended December 31, 2009

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 (Note 40)	Share premium RMB'000	Special reserve RMB'000 (Note c)	Share options reserve RMB'000	Statutory surplus reserve fund RMB'000 (Note a)	Property revaluation reserve RMB'000	Designated safety fund RMB'000 (Note b)	Retained earnings RMB'000	Total RMB'000	Equity attributable to non-controlling interests RMB'000	Total equity RMB'000
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 廣州新奥燃氣有限公司 (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)	Adjustments arising from change in accounting policy (Note 3)	Adjustment from adoption of new and revised standards	As at 2009 (As restated)
	RMB'000	RMB'000	RMB'000	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)	Adjustments arising from change in accounting policy (Note 3)	Adjustment from adoption of new and revised standards	As at 1 January 2009 (As restated)
	RMB'000	RMB'000	RMB'000	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)	**Adjustments Arising from change in accounting policy**	**Year ended 31 December 2009 (As restated)**
	RMB'000	RMB'000	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	2009
	RMB'000	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	2009	**2010**	2009
	RMB cents	RMB cents	**RMB cents**	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**	**Salaries and allowance**	**Discretionary performance bonus**	**Share-based payment**	**Retirement benefit scheme contributions**	**Total emoluments**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**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	Salaries and allowance	Discretionary performance bonus	Share-based payment	Retirement benefit scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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	2009
	RMB'000	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	2009
	RMB'000	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
湛江中油新奥天燃氣有限公司 (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奥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
中石化新奥(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, 東莞新奥燃氣有限公司 ("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
合肥新奧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
南昌中石油昆侖新奥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
寧波新奥燃氣有限公司 (Ningbo Xinao Gas Company Limited)	Incorporated	The PRC	**49%**	49%	Sales of piped gas
蘇州新奥燃氣有限公司 (Suzhou Xinao Company Limited)	Incorporated	The PRC	**51% (note b)**	51% (note b)	Wholesale of LPG, CNG, directly lather and methanol
唐山新奥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
北航新奥航務有限公司 (Xinao Harbour Company Limtied)	Incorporated	The PRC	**49%**	49%	Construction and operation of the facilities in pier
鹽城新奥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
煙台新奥燃氣發展有限公司 (Yantai Xinao Gas Development Company Limited)	Incorporated	The PRC	**50%**	50%	Investment in gas pipeline infrastructure and sales of piped gas
雲南新奥清潔能源有限公司 (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
雲南雲投新奥燃氣有限公司 (Yunnan Yuntou Xinao Gas Company Limited) ("Yunnan Yuntou")	Incorporated	The PRC	**50%**	50%	Construction and operation of vehicle gas refuelling stations
株州新奥燃氣發展有限公司 (Zhuzhou Xinao Gas Development Company Limited) ("Zhuzhou Xinao")	Incorporated	The PRC	**55% (note d)**	55% (note d)	Sales of piped gas
淄博新奥燃氣有限公司 (Zibo Xinao Gas Company Limited) ("Zibo Xinao")	Incorporated	The PRC	**60% (note a and b)**	–	Operation of vehicle gas refuelling station
鄒平新奥燃氣有限公司 ("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, 新奥（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 (Restated)	1 January 2009 RMB'000 (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	2009
	RMB'000	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	**Panjin Shengtai**
	RMB'000	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	Panjin Shengtai
	RMB'000	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	Panjin Shengtai
	RMB'000	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	**Panjin Shengtai**
	RMB'000	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 六安新奧燃氣有限公司. 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 懷化新奥燃氣有限公司 (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	2009
	RMB'000	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	2009
	RMB'000	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
安溪新奥燃氣有限公司 Anxi Xinao Gas Company Limited	PRC	RMB10,000,000	**100.00%**	–	Gas pipeline infrastructure, gas connection and sales of piped gas
北海新奥燃氣有限公司 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		Principal activities
			2010	2009	
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
巢湖新奥車用燃氣有限公司 Chaohu Xinao Vehicle Gas Company Limited#	PRC	US$540,000	**100.00%**	100.00%	Production and sales of gas for vehicle use
長沙新奥燃氣有限公司 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
長沙星沙新奥燃氣有限公司 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
長沙星沙新奥燃氣發展有限公司 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
長沙新奥熱力有限公司 Changsha Xinao Heat Energy Company Limited*	PRC	RMB35,000,000	**90.00%** (note a)	90.00% (note a)	Sales of steam
常州新奥燃氣發展有限公司 Changzhou Xinao Gas Development Company Limited*	PRC	US$600,000	**60.00%**	60.00%	Sales of piped gas
常州新奥燃氣工程有限公司 Changzhou Xinao Gas Engineering Company Limited*	PRC	US$5,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
滁州新奥燃氣有限公司 Chuzhou Xinao Gas Company Limited*	PRC	US$7,100,000	**90.00%**	90.00%	Sales of piped gas
滁州新奥燃氣工程有限公司 Chuzhou Xinao Gas Engineering Company Limited*	PRC	US$600,000	**93.00%**	93.00%	Investment in gas pipeline infrastructure
大連新奥燃氣發展有限公司 Dalian Xinao Gas Development Company Limited	PRC	RMB6,000,000	**100.00%**	–	Distribution of bottled LPG
封開新奥燃氣有限公司 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
鳳陽新奥燃氣有限公司 Fengyang Xinao Gas Company Limited#	PRC	US$2,000,000	**100.00%**	100.00%	Sales of piped gas
鳳陽新奥燃氣工程有限公司 Fengyang Xinao Gas Engineering Company Limited#	PRC	US$600,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
福州新奥清潔能源有限公司 Fuzhou Xinao Clean Energy Limited#	PRC	US$12,000,000	**–**	100.00%	Sales of CNG, LPG and LNG
廣州新奥燃氣有限公司 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
廣寧新奥燃氣有限公司 Guangning Xinao Gas Company Limited#	PRC	RMB10,000,000	**100.00%**	–	Sales of piped gas
固鎮新奥燃氣有限公司 Guzhen Xinao Gas Company Limited#	PRC	RMB4,500,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
固鎮新奥燃氣發展有限公司 Guzhen Xinao Gas Development Company Limited#	PRC	RMB15,000,000	**100.00%**	100.00%	Sales of piped gas and gas appliance
貴港新奥燃氣有限公司 Guigang Xinao Gas Company Limited#	PRC	US$3,500,000	**100.00%**	100.00%	Sales of piped gas
貴港新奥燃氣工程有限公司 Guigang Xinao Gas Engineering Company Limited#	PRC	US$500,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
桂林新奥燃氣有限公司 Guilin Xinao Gas Company Limited*	PRC	US$6,000,000	**60.00%**	60.00%	Sales of piped gas
桂林新奥燃氣發展有限公司 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
邯鄲新奥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
海安新奥燃氣有限公司 Haian Xinao Gas Company Limited#	PRC	US$1,200,000	**100.00%**	100.00%	Sales of piped gas
海寧新奥燃氣有限公司 Haining Xinao Gas Company Limited*	PRC	US$5,000,000	**80.00%**	80.00%	Investment in gas pipeline infrastructure
海寧新奥燃氣發展有限公司 Haining Xinao Gas Development Company Limited*	PRC	US$800,000	**86.00%**	86.00%	Sales of piped gas
海鹽新奥燃氣有限公司 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
衡水新奥車用燃氣有限公司 Hengshui Xinao Vehicle Gas Company Limited*	PRC	RMB16,000,000	**80.00%**	80.00%	Construction and operation of vehicle gas refuelling stations
懷集新奥燃氣有限公司 Huaiji Xinao Gas Company Limited#	PRC	RMB10,000,000	**100.00%**	–	Sales of piped gas
葫蘆島新奥燃氣有限公司 Huludao Xinao Gas Company Limited*	PRC	US$1,207,700	**90.00%**	90.00%	Sales of piped gas
葫蘆島新奥燃氣發展有限公司 Huludao Xinao Gas Development Company Limited*	PRC	US$1,200,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
葫蘆島新奥清潔能源有限公司 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
湖南新奥燃氣儲配有限公司 Hunan Xinao Gas Storage Company Limited	PRC	RMB53,000,000	**74.50%**	74.50%	Design and installation of gas equipment
湖南新奥清潔能源有限公司 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
淮安新奥燃氣有限公司 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
淮安新奥燃氣發展有限公司 Huaian Xinao Gas Development Company Limited#	PRC	RMB7,000,000	**100.00%**	100.00%	Sales of piped gas and gas appliances
淮安新奥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")
淮安新奥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
淮安新奥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
惠安新奧燃氣有限公司 Huian Xinao Gas Company Limited	PRC	RMB10,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
懷化新奧燃氣有限公司 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
晉江新奧燃氣有限公司 Jinjiang Xinao Gas Company Limited	PRC	RMB60,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
晉江新奧燃氣管道輸配有限公司 Jinjiang Xinao Gas Pipeline Transmission Company Limited*	PRC	RMB30,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
金華新奧燃氣有限公司 Jinhua Xinao Gas Company Limited#	PRC	US$5,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
金華新奧燃氣發展有限公司 Jinhua Xinao Gas Development Company Limited#	PRC	US$600,000	**100.00%**	100.00%	Sales of piped gas
開封新奧燃氣有限公司 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
山西沁水新奥燃氣有限公司 Shanxi Qinshui Xinao Gas Company Limited#	PRC	RMB50,000,000	**100.00%**	100.00%	Production and sales of LNG
商丘新奥燃氣有限公司 Shangqiu Xinao Gas Company Limited#	PRC	US$7,000,000	**100.00%**	100.00%	Sales of piped gas
商丘新奥燃氣工程有限公司 Shangqiu Xinao Gas Engineering Company Limited#	PRC	US$3,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
汕頭新奥燃氣有限公司 Shantou Xinao Gas Company Limited*	PRC	RMB34,580,000	**56.15%**	51.00%	Sales of piped gas
汕頭市新奥濠江燃氣有限公司 Shantou City Xinao Haojiang Gas Company Limited	PRC	RMB20,000,000	**100.00%**	–	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奥燃氣有限公司 Shijiazhuang Xinao Gas Company Limited*	PRC	RMB300,000,000	**65.00%**	65.00%	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奥車用燃氣有限公司 Shijiazhuang Xinao Vehicle Gas Company Limited*	PRC	RMB1,000,000	**65.00%**	65.00%	Production and sale of gas for vehicle use
石獅新奥燃氣有限公司 Shishi Xinao Gas Company Limited	PRC	RMB10,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
石獅新奥燃氣發展有限公司 Shishi Xinao Gas Development Company Limited*	PRC	RMB10,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
四會新奥燃氣有限公司 Sihui Xinao Gas Company Limited#	PRC	RMB28,000,000	**100.00%**	100.00%	Sales of piped gas
台州新奥燃氣有限公司 Taizhou Xinao Gas Company Limited*	PRC	US$2,500,000	**80.00%**	80.00%	Investment in gas pipeline infrastructure and sales of piped gas
台州新奥燃氣工程有限公司 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
泰興新奥燃氣有限公司 Taixing Xinao Gas Company Limited*	PRC	US$1,200,000	**90.00%**	90.00%	Sales of piped gas
泰興新奥燃氣工程有限公司 Taixing Xinao Gas Engineering Company Limited*	PRC	US$800,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
唐海新奥車用燃氣有限公司 Tanghai Xinao Vehicle Gas Company Limited#	PRC	RMB10,000,000	**100.00%**	–	Construction and operation of vehicle gas refuelling stations
天津新奥燃氣有限公司 Tianjin Xinao Gas Company Limited#	PRC	RMB4,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
通遼新奥燃氣有限公司 Tongliao Xinao Gas Company Limited*	PRC	US$3,000,000	**80.00%**	80.00%	Sales of piped gas
通遼新奥燃氣發展有限公司 Tongliao Xinao Gas Development Company Limited*	PRC	US$600,000	**80.00%**	80.00%	Investment in gas pipeline infrastructure
溫州新奥燃氣有限公司 Wenzhou Xinao Gas Company Limited#	PRC	US$3,100,000	**100.00%**	100.00%	Sales of piped gas
溫州新奥燃氣工程有限公司 Wenzhou Xinao Gas Engineering Company Limited#	PRC	US$700,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
溫州龍灣新奥燃氣有限公司 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
湘潭新奥燃氣有限公司 Xiangtan Xinao Gas Company Limited*	PRC	RMB70,000,000	**85.00%**	85.00%	Investment in gas pipeline infrastructure and sales of piped gas
新鄉新奥燃氣有限公司 Xinxiang Xinao Gas Company Limited*	PRC	US$10,000,000	**95.00%**	95.00%	Sales of piped gas and bottled LPG
新鄉新奥燃氣工程有限公司 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
興化新奧燃氣有限公司 Xinghua Xinao Gas Company Limited#	PRC	US$1,200,000	**100.00%**	100.00%	Sales of piped gas
興化新奧燃氣工程有限公司 Xinghua Xinao Gas Engineering Company Limited*	PRC	US$600,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奧能源物流有限公司 Xinao Energy Logistics Company Limited#	PRC	US$12,400,000	**100.00%**	100.00%	Transportation of oil products and gas
新奧(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
新奧能源銷售有限公司 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
新奧能源咨詢有限公司 Xinao Energy Consultant Company Limited#	PRC	RMB50,000,000	**100.00%**	100.00%	Provision of consultation services on overall comprehensive energy solutions
新奧燃氣發展有限公司 Xinao Gas Development Company Limited#	PRC	US$6,000,000	**100.00%**	100.00%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas
新奧燃氣工程有限公司 Xinao Gas Engineering Company Limited#	PRC	US$7,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奧(中國)燃氣投資有限公司 Xinao (China)#	PRC	US$231,778,124	**100.00%**	100.00%	Investment holding
新奧(廊坊)燃氣技術研究發展有限公司 Xinao Gas Langfang Technology Research and Development Company Limited#	PRC	US$1,400,000	**100.00%**	100.00%	Technology research and development, product development

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

Independent
Auditor's Report

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

We have audited the consolidated financial statements of Xinao Gas Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 75 to 158, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Revenue	7	**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	8	**104,586**	213,882
Selling expenses		**(159,025)**	(130,723)
Administrative expenses		**(857,047)**	(1,040,571)
Other gains and losses	9	**(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	10	**(328,449)**	(381,044)
Profit before taxation	11	**1,381,108**	1,130,679
Taxation	13	**(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

	Notes	2009	2008
Earnings per share	15		
– 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	16	**9,092,059**	7,855,387
Prepaid lease payments	17	**528,909**	472,228
Investment properties	18	**72,625**	63,005
Goodwill	19	**171,862**	168,926
Intangible assets	20	**449,773**	464,712
Interests in associates	21	**323,880**	292,483
Interests in jointly controlled entities	22	**1,015,641**	757,620
Available-for-sale financial assets	23	**14,056**	13,956
Loan receivable	24	**9,000**	12,000
Other receivable	27	**30,581**	–
Amounts due from associates	29	**71,795**	–
Amounts due from jointly controlled entities	25	**26,644**	20,000
Amounts due from related companies	30	**34,582**	–
Deferred tax assets	42	**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	31	**2,200**	–
		11,949,495	10,220,345
Current assets			
Inventories	26	**286,046**	254,060
Trade and other receivables	27	**1,208,275**	1,431,087
Prepaid lease payments	17	**11,105**	9,354
Amounts due from customers for contract work	28	**241,415**	495,318
Amounts due from associates	29	**4,301**	17,630
Amounts due from jointly controlled entities	25	**155,041**	207,350
Amounts due from related companies	30	**16,684**	57,022
Restricted bank deposits	31	**118,270**	79,817
Cash and cash equivalents	32	**2,712,661**	1,725,358
		4,753,798	4,276,996
Non-current assets classified as held for sale	33	**–**	76,977
		4,753,798	4,353,973
Current liabilities			
Trade and other payables	34	**2,771,574**	2,752,280
Amounts due to customers for contract work	28	**564,898**	465,606
Amounts due to associates	29	**76,405**	46,502
Amounts due to jointly controlled entities	25	**327,826**	102,884
Amounts due to related companies	35	**21,261**	35,507
Taxation payable		**97,906**	75,932
Bank and other loans – due within one year	36	**675,796**	1,239,450
Short-term debenture	37	**808,699**	630,043
Financial guarantee liability	38	**3,383**	4,384
Deferred income – current portion	39	**16,290**	692
		5,364,038	5,353,280
Liability associated with assets classified as held for sale	33	**–**	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

	Notes	**2009** **RMB'000**	2008 RMB'000
Capital and reserves			
Share capital	40	**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	36	**3,048,805**	2,186,720
Guaranteed notes	41	**1,351,209**	1,346,927
Deferred tax liabilities	42	**180,859**	150,873
Deferred income – non-current portion	39	**280,125**	20,078
		4,860,998	3,704,598
		11,339,255	9,146,038

The consolidated financial statements on pages 75 to 158 were approved and authorised for issue by the Board of Directors on 31 March 2010 and are signed on its behalf by:

Wang Yusuo	**Yu Jianchao**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to owners of the Company										
	Share capital RMB'000 (Note 40)	Share premium RMB'000	Special reserve RMB'000 (Note a)	Share option reserve RMB'000	Statutory surplus reserve fund RMB'000 (Note b)	Property revaluation reserve RMB'000	Designated safety fund RMB'000 (Note d)	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	106,318	1,893,039	(18,374)	53,878	157,891	24,688	–	1,518,107	3,735,547	925,111	4,660,658
Profit for the year	–	–	–	–	–	–	–	630,705	630,705	240,019	870,724
Other comprehensive income for the year	–	–	–	–	–	4,125	–	–	4,125	675	4,800
Total comprehensive income for the year	–	–	–	–	–	4,125	–	630,705	634,830	240,694	875,524
Recognition of equity settled share-based payment (Note 43)	–	–	–	4,330	–	–	–	–	4,330	–	4,330
Acquisition of businesses (Note 44(b))	–	–	–	–	–	–	–	–	–	20,257	20,257
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	129,307	129,307
Deemed acquisition of additional interest in a subsidiary (note c)	–	–	–	–	–	–	–	–	–	(1,294)	(1,294)
Dividend appropriation	–	–	–	–	–	–	–	(119,136)	(119,136)	–	(119,136)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(128,206)	(128,206)
Transfer to statutory surplus reserve fund	–	–	–	–	68,797	–	–	(68,797)	–	–	–
At 31 December 2008	106,318	1,893,039	(18,374)	58,208	226,688	28,813	–	1,960,879	4,255,571	1,185,869	5,441,440

	Attributable to owners of the Company										
	Share capital RMB'000 (Note 40)	Share premium RMB'000	Special reserve RMB'000 (Note a)	Share option reserve RMB'000	Statutory surplus reserve fund RMB'000 (Note b)	Property revaluation reserve RMB'000	Designated safety fund RMB'000 (Note d)	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Profit for the year	–	–	–	–	–	–	–	800,634	800,634	276,015	1,076,649
Other comprehensive income for the year	–	–	–	–	–	26,489	–	–	26,489	2,461	28,950
Total comprehensive income for the year	–	–	–	–	–	26,489	–	800,634	827,123	278,476	1,105,599
Issue of shares on exercise of share options (Note 43)	3,561	291,422	–	(58,208)	–	–	–	–	236,775	–	236,775
Disposal of a subsidiary (Note 45)	–	–	–	–	–	–	–	–	–	(1,581)	(1,581)
Acquisition of a business (Note 44(a))	–	–	–	–	–	–	–	–	–	2,107	2,107
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	3,248	3,248
Dividend appropriation	–	–	–	–	–	–	–	(157,644)	(157,644)	–	(157,644)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(151,687)	(151,687)
Transfer to statutory surplus reserve fund	–	–	–	–	80,752	–	–	(80,752)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	–	14,176	(14,176)	–	–	–
At 31 December 2009	109,879	2,184,461	(18,374)	–	307,440	55,302	14,176	2,508,941	5,161,825	1,316,432	6,478,257

Notes:

a. The amount 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. The difference between the fair value and the carrying amount of the net assets attributable to the 20% additional interest acquired by the subsidiary of the Company amounting to approximately RMB19,541,000 was recognised in the special reserve.

b. Except for sino-foreign equity joint ventures, according to relevant laws and regulations of the People's Republic of China (the "PRC"), an entity established under the PRC Companies Law is required to make an appropriation at 10% of the profit for the year, prepared in accordance with the PRC accounting standards, to the statutory surplus reserve fund until the balance reached 50% of the registered capital of that entity. The reserve appropriated can only make up the losses or use to increase the registered capital of that entity and is not distributable. The appropriation of profit for the year to the statutory surplus reserve fund of the subsidiaries of the Company established under PRC Companies Law amounted to RMB80,752,000 (2008: RMB68,797,000).

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

d. 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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	**2009 RMB'000**	2008 RMB'000
Operating activities			
Profit before taxation		**1,381,108**	1,130,679
Adjustments for:			
Share of results of associates		**(5,066)**	(7,347)
Share of results of jointly controlled entities		**(210,719)**	(192,828)
Gain on deemed acquisition of additional interest in a subsidiary		**–**	(1,294)
Discount on acquisition of a subsidiary	44(b)(ii)	**–**	(663)
Exchange gain of guaranteed notes		**(1,280)**	(94,000)
Impairment of available-for-sale financial assets		**–**	18
Impairment loss on property, plant and equipment		**12,801**	–
Loss (gain) on disposal of property, plant and equipment		**6,102**	(10,880)
Gain on disposal of prepaid lease payments		**(10,752)**	(5,648)
Loss on disposal of a subsidiary	45	**1,571**	–
Loss on deregistration of jointly controlled entities		**7,967**	–
Gain on disposal of an associate		**(5,023)**	–
(Increase) decrease in fair value of investment properties		**(9,620)**	13,022
Share-based payment expenses		**–**	4,330
Revaluation deficit (surplus) of property, plant and equipment		**9,344**	(9,645)
Depreciation of property, plant and equipment		**357,468**	276,356
Impairment loss (reversal of impairment loss) on trade and other receivables		**57,106**	(14.934)
Write off other receivable		**54,258**	–
Fair value adjustment on interest-free advances to minority shareholder		**7,350**	–
Fair value adjustment on other receivables		**1,538**	–
Amortisation of intangible assets		**22,939**	27,543
Release of prepaid lease payments		**10,293**	8,966
Financial guarantee income		**(1,001)**	(1,696)
Interest income		**(20,759)**	(30,265)
Interest expenses		**328,449**	381,044
Deferred income released to profit or loss		**(11,104)**	–
Operating cash flows before movements in working capital		**1,982,970**	1,472,758
Increase in inventories		**(30,857)**	(6,458)
Decrease (increase) in trade and other receivables		**33,398**	(258,900)
Decrease (increase) in amounts due from customers for contract work		**253,903**	(159,408)
(Increase) decrease in amounts due from associates		**(5,974)**	168,955
Increase in amounts due from jointly controlled entities		**(818)**	(69,631)
Increase in amounts due from related companies		**(4,208)**	(13,749)
Increase in trade and other payables		**116,386**	356,455
Increase in amounts due to customers for contract work		**99,292**	159,962
Increase in amounts due to jointly controlled entities		**48,156**	72,650
Increase (decrease) in amounts due to associates		**1,959**	(69,909)
(Decrease) increase in amounts due to related companies		**(14,527)**	5,728
Deferred income received		**286,749**	20,770
Cash generated from operating activities		**2,766,429**	1,679,223
Interest received		**20,759**	30,265
Interest paid		**(285,222)**	(271,867)
PRC enterprise income tax paid		**(295,141)**	(185,704)
Net cash from operating activities		**2,206,825**	1,251,917

	Notes	2009 RMB'000	2008 RMB'000
Investing activities			
Dividend received from jointly controlled entities		**80,936**	82,458
Dividend received from associates		**4,415**	1,981
Purchase of property, plant and equipment		**(1,541,353)**	(1,186,068)
Deposit paid for acquisition of operation rights		**(3,328)**	(1,000)
Deposit paid for acquisition of prepaid lease payment		**(4,682)**	(2,800)
Proceed received/ deposit received for disposal of an associate	33	**7,000**	75,000
Increase in prepaid lease payments		**(85,483)**	(65,249)
Acquisition of businesses	44	**(21,553)**	(36,788)
Disposal of a subsidiary	45	**775**	–
Deposits paid for investments in subsidiaries		**(3,200)**	(72,095)
Refund for deposits paid for investments in subsidiaries		**13,019**	–
Investments in jointly controlled entities		**(131,579)**	(150,886)
Investments in associates		**(22,500)**	(18,000)
Acquisition of intangible asset		**(8,000)**	(2,000)
Proceeds from disposal of property, plant and equipment		**38,996**	41,016
Proceeds from disposal of prepaid lease payments		**27,510**	26,865
Increase in restricted bank deposits		**(40,653)**	(79,817)
Decrease (increase) in loan receivable		**3,000**	(15,000)
Net cash used in investing activities		**(1,686,680)**	(1,402,383)
Financing activities			
Interest paid on guaranteed notes		**(100,874)**	(103,478)
Proceeds from shares issued on exercise of share options		**236,775**	–
Proceed from issuance of short-term debenture		**800,000**	600,000
Repayment of short-term debenture		**(600,000)**	(400,000)
Contribution from minority shareholders		**3,248**	129,307
Dividends paid to minority shareholders		**(151,687)**	(128,206)
Dividends paid to shareholders		**(157,644)**	(119,136)
Deferred consideration for acquisition of businesses		**(94,553)**	–
New bank loans raised		**3,598,680**	1,677,408
Repayment of bank loans		**(3,300,249)**	(1,473,530)
Net amount advance (to) from associates		**39,206**	–
Net amount advance (to) from jointly controlled entitles		**191,361**	–
Net amount advance (to) from related companies		**2,895**	–
Net cash from financing activities		**467,158**	182,365
Net increase in cash and cash equivalents		**987,303**	31,899
Cash and cash equivalents at beginning of the year		**1,725,358**	1,693,459
Cash and cash equivalents at end of the year		**2,712,661**	1,725,358

1. General

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

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

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 53.

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 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.

3. 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 50).

HK(IFRIC) – Int 18 "Transfer of Assets from Customers"

HK(IFRIC) – Int 18 applies when an entity receives cash from a customer for the construction or acquisition of an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

If 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. If the agreement does not specify a period, the revenue is recongised over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

In the current year, certain subsidiaries of the Group received cash from its customers for the construction of the Group's main gas pipelines, the Group applied this interpretation prospectively for transfers of cash from customers received on or after 1 July 2009. The application of HK(IFRIC) – Int 18 does not have impact to the results and the financial position of the Group as the accounting policies applied by the Group prior to the application of HK(IFRIC) – Int 18 is consistent with HK(IFRIC) – Int 18.

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

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

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Parties Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transation[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

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, leases 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 our 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.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

4. Significant Accounting Policies

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

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

Basis of consolidation

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

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

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

Business combinations

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

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

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

Business combination achieved in stages

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

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

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

4. Significant Accounting Policies *(continued)*

Interests in associates

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

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"). Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equal or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

Interests in jointly controlled entities

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entities recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the jointly controlled entity. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where the Group transacts with its jointly controlled entities, profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entities.

4. Significant Accounting Policies *(continued)*

Goodwill

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

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units expected to benefit from the synergies of the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

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

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

Non-current assets held for sale

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

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

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

Revenue recognition

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

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

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 recongised over a period no longer than the useful life of the relevant property, plant and equipment used to provide the ongoing service.

4. 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 as an expense 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. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessary 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 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.

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.

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

4. Significant Accounting Policies *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At 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 arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange difference are also recognised directly in equity.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other year, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the 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 base 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 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 difference 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized 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 rate (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. Deferred tax 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 deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

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

Buildings held for use in production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

4. Significant Accounting Policies *(continued)*

Property, plant and equipment *(continued)*

Any revaluation increase arising on revaluation of buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated statement of comprehensive income to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the property revaluation reserve is transferred to accumulated profits.

Depreciation and amortisation is provided to write off the costs or fair value of property, plant and equipment other than construction in progress, over their estimated useful lives, and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Investment properties

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

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

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

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

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

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

Inventories

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

Gas connection contracts

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

When the outcome of a gas connection contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the net balances are 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 net balances are 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.

4. Significant Accounting Policies *(continued)*

Gas connection contracts *(continued)*

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.

Financial instruments

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

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period 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 (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 non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loan and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

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

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at 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 the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

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

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

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

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

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

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

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

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

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Equity instruments

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

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity (continued)

Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "*Revenue*".

Derecognition

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

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

5. Key Sources of Estimation Uncertainty

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

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the 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.

Revenue recognition of gas connection contract

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

5. Key Sources of Estimation Uncertainty *(continued)*

Depreciation of property, plant and equipment

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

Estimated impairment of goodwill

The carrying value of goodwill at 31 December 2009 amounted to RMB171,862,000 (2008: 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 19.

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 2009, the carrying amount of trade and other receivables after deducting the impairment recognised is RMB685,609,000 (2008: RMB748,192,000). Details of movement in impairment on trade and other receivables are set out in Note 27.

6. Capital Risk Management and Financial Instruments

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern; to maintain the confidence of creditors; to sustain future development of the entities and to maximise the return to the equity holders of the entities. The capital structure of the Group consists of net debt (borrowings disclosed in Notes 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:

	2009 **RMB'000**	2008 RMB'000
Bank and other loans	**3,724,601**	3,426,170
Short-term debenture	**808,699**	630,043
Guaranteed notes	**1,351,209**	1,346,927
	5,884,509	5,403,140
Less: Cash and cash equivalents	**2,712,661**	1,725,358
Net debt	**3,171,848**	3,677,782
Total equity	**6,478,257**	5,441,440

6. Capital Risk Management and Financial Instruments *(continued)*

a. Capital risk management *(continued)*

	2009	2008
	%	%
Net debt to total equity ratio	**49**	68

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

b. Financial risk management objectives and policies

Categories and fair value of financial instruments

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

	2009	2008
	RMB	RMB
Financial assets		
Available-for-sale financial assets	**14,056**	13,956
Loans and receivables	**3,823,424**	3,031,505
Financial liabilities		
Financial liabilities stated at amortised cost	**7,669,044**	6,936,987
Financial guarantee liability	**3,383**	4,384

The Group's major financial instruments include loan receivable, trade and other receivables, amounts 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 debenture, guaranteed notes and financial guarantee liability. Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

Currency risk

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

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

The carrying amounts of the Group's foreign currency denominated assets and liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Foreign currency:				
United States Dollar ("USD")	**69,491**	849	**2,443,721**	1,381,101
Hong Kong Dollar ("HKD")	**27,398**	1,254	**13,706**	125,786

6. Capital Risk Management and Financial Instruments *(continued)*

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

Currency risk (continued)

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

	United States Dollar		Hong Kong Dollar	
	2009	2008	**2009**	2008
	%	%	**%**	%
Possible change in exchange rate	**5**	5	**5**	5

	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
(Decrease) increase in profit for the year:				
– if RMB weakens against foreign currencies	**(118,712)**	(68,449)	**685**	(6,227)
– if RMB strengthens against foreign currencies	**118,712**	68,449	**(685)**	6,227

Interest rate risk

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

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to non-current amounts due from jointly controlled entities, non-current amounts due from associates, fixed-rate bank and other loans, short-term debenture and guaranteed notes (see Notes 25, 29, 36, 37 and 41 for details of these loans, debenture and notes respectively).

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

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 24 and 36 for details of these amounts).

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

	2009	2008
	RMB'000	RMB'000
Reasonably possible change in interest rate	**27 basis points**	27 basis points
(Decrease) increase in profit for the year		
– as a result of increase in interest rate	**(8,017)**	(7,981)
– as a result of decrease in interest rate	**8,017**	7,981

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

6. Capital Risk Management and Financial Instruments *(continued)*

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

Price risk

The Group is exposed to equity price risk. Its investment in unlisted equity securities with carrying value of RMB14,056,000 (2008: RMB13,956,000) which was classified as available-for-sale investment but are stated at cost less accumulated impairment. However, as the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably, accordingly, sensitivity analysis for price risk is not presented.

Credit risk

As at 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties or debtors which the Group has provided financial guarantees is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and
- the amount of contingent liability in relation to the financial guarantee contracts 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 the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

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

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

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for all trade receivables at 31 December 2008 and 2009.

Liquidity risk

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

The Group relies on bank and other loans as a significant source of liquidity. As at 31 December 2009, the Group has available unutilised short-term bank loan facilities and short-term debenture facilities of approximately RMB1,030,000,000 (2008: RMB2,043,000,000).

6. Capital Risk Management and Financial Instruments *(continued)*

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

Liquidity risk (continued)

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	Within one year	Within the second year	Within the third year	Within the forth year	Within the fifth year	Over five years	Total undiscounted 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 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 debenture	**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 31 December 2008									
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 debenture	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

The amounts included above for financial guarantee contracts are the maximum exposure to the Group if that amounts 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.

6. Capital Risk Management and Financial Instruments *(continued)*

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

Liquidity risk (continued)

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

	2009 RMB'000	2009 Expiry period	2008 RMB'000	2008 Expiry period
Guarantees given to banks in respect of banking facilities utilised by associates	**30,000**	**2013**	60,000	2009-2013

Fair value

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

– The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

– The fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

Available-for-sale financial assets at 31 December 2009 of RMB14,056,000 (2008: RMB13,956,000) are stated at cost less impairment. As these investments are unlisted and the ranges of reasonable fair value estimates are significant, the Directors are of the opinion that their fair values cannot be measured reliably.

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

	2009 Carrying amount RMB'000	2009 Fair value RMB'000	2008 Carrying amount RMB'000	2008 Fair value RMB'000
Amount due from a jointly controlled entity	**–**	**–**	20,000	19,330
Fixed-rate bank loans	**712,283**	**668,386**	383,665	358,231
Guaranteed notes	**1,351,209**	**1,352,527**	1,346,927	1,354,950

7. Revenue

	2009 RMB'000	2008 RMB'000
Revenue comprises the following:		
Sales of goods		
Sales of piped gas	**4,077,527**	3,094,767
Distributions of bottled liquefied petroleum gas	**897,121**	2,009,304
Vehicle gas refuelling stations	**797,663**	661,160
Sales of gas appliances	**86,814**	78,660
	5,859,125	5,843,891
Provision of service		
Gas connection fees	**2,553,755**	2,421,617
	8,412,880	8,265,508

8. Other Income

	2009	2008
	RMB'000	RMB'000
Included in other income are:		
Incentive subsidies (note a)	**35,942**	38,456
Interest income	**20,759**	30,265
Compensation received	**1,296**	7,842
Gain on foreign exchange, net (note b)	**6,717**	89,917
Gain on disposal of prepaid lease payments	**–**	5,648
Gain on deemed acquisition of a subsidiary	**–**	1,294
Pipeline transmission income	**956**	1,069
Rental income from investment properties, net (note c)	**3,502**	2,581
Rental income from lease of equipment	**–**	465
Discount on acquisition of business (Note 44(b)(ii))	**–**	663
Repairs and maintenance income	**8,171**	6,447
Financial guarantee income	**1,001**	1,696

Notes:

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

(b) Included in the amount is an amount of RMB1,280,000 (2008: RMB94,000,000) 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 RMB120,000 (2008: RMB108,000).

9. 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 (Note 16)	**(12,801)**	–
(Impairment loss) reversal of impairment loss on trade and other receivables, net (Note 27)	**(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 (Note 33)	**5,023**	–
Loss on disposal of a subsidiary (Note 45)	**(1,571)**	–
Loss on deregistration of jointly controlled entities (Note 22(e))	**(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 of subsidiaries at initial recognition (Note 30)	**(7,350)**	–
Fair value adjustment on other receivables at initial recognition (Note 27)	**(1,538)**	–
Total (losses) gains	**(132,642)**	22,419

10. Finance Costs

	2009	2008
	RMB'000	RMB'000
Interest on:		
Bank and other loans wholly repayable within five years	**150,320**	127,160
Bank loans not wholly repayable within five years	**98,570**	116,152
Guaranteed notes	**105,920**	107,629
Short-term debentures	**14,357**	51,307
Discounted note receivables	**631**	8,916
	369,798	411,164
Less: Amount capitalised under construction in progress (note)	**(41,349)**	(30,120)
	328,449	381,044

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

11. Profit Before Taxation

	2009	2008
	RMB'000	RMB'000
Profit before taxation has been arrived at after (crediting) charging:		
Amortisation of intangible assets (included in cost of sales)	**22,939**	27,543
Release of prepaid lease payments	**10,293**	8,966
Auditors' remuneration	**6,869**	6,470
Depreciation of property, plant and equipment	**357,468**	276,356
Minimum lease payments under operating leases in respect of land and buildings recognised in profit or loss	**24,804**	25,372
Research and development expenses (included in administrative expenses)	**4,810**	12,919
Share-based payment expenses, including directors' emoluments (included in administrative expenses)	**–**	4,330
Other staff costs, including directors' emoluments	**651,483**	596,639
Less: Amount capitalised under construction in progress	**(13,031)**	(34,059)
	638,452	566,910

12. Remuneration of Directors and Employees

(a) Directors' emoluments

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

	2009					
Name of director	**Fee RMB'000**	**Salaries and allowance RMB'000**	**Discretionary performance bonus RMB'000**	**Share base payment RMB'000**	**Retirement benefit scheme contributions RMB'000**	**Total emoluments RMB'000**
Wang Yusuo	–	2,115	–	–	–	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

	2008					
Name of director	Fee RMB'000	Salaries and allowance RMB'000	Discretionary performance bonus RMB'000	Share base payment RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Wang Yusuo	–	2,135	–	–	–	2,135
Yang Yu	–	1,412	–	525	–	1,937
Chen Jiacheng	–	1,488	280	488	62	2,318
Zhao Jinfeng	–	445	–	488	–	933
Qiao Limin	–	392	–	488	–	880
Jin Yongsheng	133	–	–	–	–	133
Yu Jianchao	–	445	–	488	–	933
Cheung Yip Sang	–	1,083	600	428	31	2,142
Cheng Chak Ngok	–	641	–	60	11	712
Liang Zhiwei	–	52	–	–	–	52
Zhai Xiaoqin	–	52	–	–	–	52
Zhao Baoju	133	–	–	–	–	133
Wang Guangtian	133	–	–	–	–	133
Yien Yu Yu, Catherine	133	–	–	–	–	133
Kong Chung Kau	133	–	–	–	–	133
	665	8,145	880	2,965	104	12,759

The amounts disclosed above include directors' fees of RMB387,000 (2008: RMB399,000) payable to independent non-executive directors. None of the directors waived any emoluments during the year.

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

(b) Five highest paid individuals

The five highest paid individuals in the Group in 2009 and 2008 were all directors of the Company and details of their emoluments are included in note (a) above.

13. Taxation

	2009	2008
	RMB'000	RMB'000
PRC Enterprise Income Tax:		
Current tax	**336,172**	224,855
(Over) under provision in prior years	**(19,057)**	935
	317,115	225,790
Deferred tax (Note 42)		
Current year	**(12,656)**	34,165
	304,459	259,955

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% 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.

13. Taxation *(continued)*

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

	2009 RMB'000	2008 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. (see Note 42).

14. Dividends

	2009 RMB'000	2008 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 HKD21.65 cents (equivalent to RMB19.06 cents) per share (2008: 2008 final dividend proposed of HK$17.71 cents (equivalent to RMB15.62 cents) per share)	**200,158**	157,676

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.

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

	2009 Number of shares	2008 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.

16. Property, Plant and Equipment

	Land and buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST/VALUATION							
At 1 January 2008	655,947	4,643,649	375,344	266,808	259,853	1,127,835	7,329,436
Transfer from investment properties	18,423	–	–	–	–	–	18,423
Acquisition of subsidiaries	28,526	2,697	106,915	1,185	1,658	10,009	150,990
Additions	46,221	69,558	25,109	53,139	59,266	963,295	1,216,588
Reclassification	41,507	754,733	62,467	4,316	(3,346)	(859,677)	–
Disposals	(18,456)	(5,500)	(9,061)	(10,453)	(4,038)	–	(47,508)
Adjustment on valuation	(8,065)	–	–	–	–	–	(8,065)
At 31 December 2008	764,103	5,465,137	560,774	314,995	313,393	1,241,462	8,659,864
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)
Adjustment on valuation	4,781	–	–	–	–	–	4,781
At 31 December 2009	886,052	6,450,397	697,258	339,456	467,744	1,382,430	10,223,337
Comprising:							
At cost	–	6,450,397	697,258	339,456	467,744	1,382,430	9,337,285
At valuation 2009	886,052	–	–	–	–	–	886,052
	886,052	6,450,397	697,258	339,456	467,744	1,382,430	10,223,337
DEPRECIATION AND AMORTISATION/IMPAIRMENT							
At 1 January 2008	–	367,623	80,331	76,172	39,057	5,512	568,695
Provided for the year	26,377	134,038	34,361	42,220	39,360	–	276,356
Eliminated on disposals	(3,175)	(1,229)	(3,726)	(6,914)	(2,328)	–	(17,372)
Adjustment on valuation	(23,202)	–	–	–	–	–	(23,202)
At 31 December 2008	–	500,432	110,966	111,478	76,089	5,512	804,477
Provided for the year	23,060	197,382	33,532	44,399	59,095	–	357,468
Impairment loss recognised	2,775	8,193	1,575	25	233	–	12,801
Eliminated on disposal of a subsidiary	–	–	(100)	–	(4)	–	(104)
Eliminated on disposals	(2,046)	(2,568)	(3,502)	(7,223)	(4,236)	–	(19,575)
Adjustment on valuation	(23,789)	–	–	–	–	–	(23,789)
At 31 December 2009	–	703,439	142,471	148,679	131,177	5,512	1,131,278
CARRYING VALUES							
At 31 December 2009	886,052	5,746,958	554,787	190,777	336,567	1,376,918	9,092,059
At 31 December 2008	764,103	4,964,705	449,808	203,517	237,304	1,235,950	7,855,387

16. Property, Plant and Equipment

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 RMB21,069,000 (2008: RMB20,705,000) which are located in Hong Kong under long lease, the remaining land and buildings are located in the PRC under medium lease.

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 RMB179,602,000 (2008: 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.

The Group revalued its buildings at 31 December 2009, resulting in a revaluation surplus of RMB28,570,000 (2008: RMB15,137,000), of which RMB37,914,000 has been credited (2008: RMB5,492,000) to the property revaluation reserve and RMB9,344,000 has been debited (2008: RMB9,645,000 has been credited) to consolidated statement of comprehensive income. The valuation has been arrived at by reference to valuation carried out by Knight Frank Petty Limited ("Knight Frank Petty"), an independent firm of qualified professional valuers, on an open market value basis. Knight Frank Petty has appropriate qualifications and recent experiences in the valuation of similar properties in relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. At 31 December 2009, the carrying value of these revalued buildings amounted to RMB886,052,000 (2008: RMB764,103,000). If they had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation of RMB857,432,000 (2008: RMB647,343,000).

In 2008, the Group replaced the pipelines for delivery of coal gas into pipelines for delivery of natural gas in Shijiazhuang, Hebei Province, the PRC. During the year ended 31 December 2009, the Director considered that the realisation value of such coal gas pipelines is immaterial and the cost for reuse outweighs the carrying values, therefore, full impairment loss of RMB12,801,000 is recognised in consolidated statement of comprehensive income during the year ended 31 December 2009.

17. Prepaid Lease Payments

	2009	2008
	RMB'000	RMB'000
Operating leases prepayment in respect of:		
Land in Hong Kong under long leases	**4,768**	4,912
Land in the PRC under medium term land use rights	**535,246**	476,670
	540,014	481,582
Analysed for reporting purposes as:		
Non-current portion	**528,909**	472,228
Current portion	**11,105**	9,354
	540,014	481,582

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 RMB33,724,000 (2008: 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.

18. Investment Properties

	RMB'000
FAIR VALUE	
At 1 January 2008	94,450
Transfer to property, plant and equipment	(18,423)
Net decrease in fair value recognised in the consolidated statement of comprehensive income	(13,022)
At 31 December 2008	63,005
Net increase in fair value recognised in the consolidated statement of comprehensive income	9,620
At 31 December 2009	72,625

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.

	2009 **RMB'000**	2008 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)	**50,437**	46,966
	72,625	63,005

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

The fair value of the Group's investment properties at 31 December 2008 and 2009 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.

The Group has pledged certain of its investment properties amounting to RMB22,188,000 (2008: RMB29,449,000) to secure general banking facilities and mortgage loan granted to the Group.

The property rental income, net of outgoing expenses of RMB120,000 (2008: RMB108,000), earned by the Group from its investment properties, all of which is leased out under operating leases, amounted to RMB3,502,000 (2008: RMB2,581,000).

19. Goodwill

	2009 RMB'000	2008 RMB'000
COST		
At beginning of the year	**219,532**	204,236
Arising on:		
Acquisition of businesses (Note 44)	**2,936**	15,296
At end of the year	**222,468**	219,532
IMPAIRMENT		
At beginning and end of the year	**(50,606)**	(50,606)
CARRYING AMOUNTS		
At end of the year	**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:

	2009 RMB'000	2008 RMB'000
Sale of piped gas business located in Lianyungang, the PRC	**17,628**	17,628
Sale of piped gas business located in Kaifeng, the PRC	**15,833**	15,833
Sale of piped gas business located in Hangzhou Xiaoshan, the PRC	**37,011**	37,011
Production and sale of liquefied natural gas (included under sale of piped gas segment)	**15,296**	15,296
Other CGUs	**86,094**	83,158
	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.

For the purpose of impairment testing, the Group prepares cash flow projection covering a 10-year period. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period. The cash flows beyond the 5-year period are extrapolated using an estimated growth pattern at growth rates between 0.15% to 23.89% (2008: 0.46% to 26.21%), and discount rate of 8% (2008: 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.

20. Intangible Assets

	Rights of operation RMB'000	Customer base RMB'000	Total RMB'000
COST			
At 1 January 2008	452,200	42,407	494,607
Addition	2,000	–	2,000
Acquired on acquisition of businesses (Note 44(b))	20,361	390	20,751
At 31 December 2008	474,561	42,797	517,358
Addition	8,000	–	8,000
At 31 December 2009	482,561	42,797	525,358
AMORTISATION			
At 1 January 2008	22,471	2,632	25,103
Charge for the year	26,008	1,535	27,543
At 31 December 2008	48,479	4,167	52,646
Charge for the year	21,400	1,539	22,939
At 31 December 2009	69,879	5,706	75,585
CARRYING VALUES			
At 31 December 2009	412,682	37,091	449,773
At 31 December 2008	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 18 to 50 years.

21. Interests in Associates

	2009 RMB'000	2008 RMB'000
Cost of unlisted investment	**321,213**	290,467
Share of post-acquisition profits net of dividend received	**2,667**	2,016
	323,880	292,483

21. Interests in Associates *(continued)*

Details of the Group's associates as at 31 December 2009 and 31 December 2008 are as follows:

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group 2009	2008	Principal activities
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 Changan Xinao Gas Company Limited")	Incorporated	The PRC	**25%** (note a)	25% (note a)	Investment in gas pipeline infrastructure and sales of piped gas
山東魯新天然氣有限公司 ("Shandong Luxin Xinao Gas Company Limited")	Incorporated	The PRC	**30%**	30%	Investment in gas pipeline infrastructure and sales of piped gas
長沙市鑫能車用燃氣有限公司 ("Changsha City Xinneng Vehicle Gas Industry Company Limited")	Incorporated	The PRC	**30%**	30%	Sales of piped gas
咸陽新奧燃氣有限公司 ("Xianyang Xinao Gas Company Limited")	Incorporated	The PRC	**–** (note b)	40% (note b)	Sales of piped gas
上海新奧九環車用能源股份有限公司 ("Shanghai Xinao Jiuhuan Vehicle Gas Joint-stock Company Limited")	Incorporated	The PRC	**54.57%** (note c)	54.57% (note c)	Sales of liquid petroleum gas
上海九環汽車天然氣發展有限公司 ("Shanghai Jiuhuan Vehicle Natural Gas Development Company Limited")	Incorporated	The PRC	**40%** (note d)	40% (note d)	Sales of compressed natural gas
上海九環交通大眾油汽供應有限公司 ("Shanghai Jiuhuan Public Transportation Gas Supplies Company Limited")	Incorporated	The PRC	**47.29%**	47.29%	Sales of liquid petroleum gas
上海九環大眾油汽供應有限公司 ("Shanghai Jiuhuan Public Gas Supplies Company Limited")	Incorporated	The PRC	**30%** (note e)	30% (note e)	Sales of liquid petroleum gas
新能能源有限公司 ("Xinneng Energy Company Limited")	Incorporated	The PRC	**15%** (note f)	15% (note f)	Design, construction, equipment installation and operation of a greenfield coal-to-methanol conversion plant
洛陽市億能工貿有限責任公司 ("Luoyang Yineng Company Limited")	Incorporated	The PRC	**25%**	25%	Sales of piped gas and gas application
寧夏清潔能源發展有限公司 ("Ningxia Clean Energy Development Co., Ltd.")	Incorporated	The PRC	**30%**	30%	Sales of liquid petroleum gas
中石化新奧(天津)能源有限公司	Incorporated	The PRC	**45%** (note g)	–	Sales of piped gas

21. Interests in Associates *(continued)*

Notes:

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

(b) The Company disposed of Xianyang Xinao Gas Company Limited ("Xianyang Xinao") during the year and the transaction has not yet completed up to 31 December 2008, therefore, the Group's interests in Xianyang Xinao are classified as "Non-current assets classified as held for sale" at 31 December 2008 as set out in Note 33. The disposal was completed during the year ended 31 December 2009.

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

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

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

(f) The Group holds 15% interest in 新能能源有限公司 and has the power to appoint two directors out of a total eleven directors. Accordingly, the Directors consider that the Group exercises significant influence over this entity and it is therefore classified as an associate of the Group.

(g) The Group holds 45% equity interest in 中石化新奥(天津)能源有限公司 and the remaining equity interest of this entity are held by another two shareholders, which holds 45% and 10% respectively. According to the memorandum of association of the entity, all the financial and operating decision of the entity must be approved by two-third of the directors and the proportion of voting power held by the three shareholders are 40%, 40% and 20%, therefore, this entity is classified as an associate of the Group.

Included in the cost of investment in associates is deemed capital contribution of approximately RMB8,246,000 (2008: Nil) in relation to interest free advances to certain associates by the Group and goodwill of RMB47,668,000 (2008: RMB47,668,000) arising on acquisition of associates. The fair value adjustment 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 movement of goodwill is set out below:

	2009	2008
	RMB'000	RMB'000
At beginning of the year	**47,668**	64,314
Transferred to non-current assets held for sale	**–**	(16,646)
At end of the year	**47,668**	47,668

21. Interests in Associates *(continued)*

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

	2009 RMB'000	2008 RMB'000
Total assets	**4,925,259**	4,500,187
Total liabilities	**(3,775,066)**	(3,336,910)
Net assets	**1,150,193**	1,163,277
Group's share of net assets of associates	**263,194**	240,043
Goodwill on acquisition of associates	**47,668**	47,668
Deemed capital contribution		
– Financial guarantee	**4,772**	4,772
– Fair value adjustments on interest-free advances	**8,246**	–
	323,880	292,483
Revenue	**1,011,115**	1,084,858
(Loss) profit for the year	**(53,926)**	17,147
Group's share of profit of associates for the year	**5,066**	7,347

22. Interests in Jointly Controlled Entities

	2009 RMB'000	2008 RMB'000
Cost of unlisted investments	**620,752**	499,952
Shares of post-acquisition profits, net of dividends received	**394,889**	257,668
	1,015,641	757,620

Details of the Group's jointly controlled entities as at 31 December 2009 and 31 December 2008 are as follows:

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group 2009	2008	Principal activities
鹽城新奧壓縮天燃氣有限公司 ("Yancheng Xinao Compressed Natural Gas Company Limited)	Incorporated	The PRC	**50%**	50%	Production and distribution of compressed natural gas
東莞新奧燃氣有限公司 ("Dongguan Xinao Gas Company Limited")	Incorporated	The PRC	**55%** (note a)	55% (note a)	Investment in gas pipeline infrastructure and sales of piped gas and liquefied petroleum gas
湖州新奧燃氣有限公司 ("Huzhou Xinao Gas Company Limited")	Incorporated	The PRC	**50%**	50%	Investment in gas pipeline infrastructure, sale of gas appliances and equipment, provision of repair and maintenance service and operation of natural gas station

22. 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 2009	2008	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
煙台新奧燃氣發展有限公司 ("Yantai Xinao Gas Development Company Limited")	Incorporated	The PRC	**50%**	50%	Investment in gas pipeline infrastructure and sales of piped gas
湖州新奧燃氣發展有限公司 ("Huzhou Xinao Gas Development Company Limited")	Incorporated	The PRC	**50%**	50%	Sales of piped gas
株州新奧燃氣發展有限公司 ("Zhuzhou Xinao Gas Development Company Limited")	Incorporated	The PRC	**55%** (note b)	55% (note b)	Sales of piped gas
寧波新奧燃氣有限公司 ("Ningbo Xinao Gas Company Limited")	Incorporated	The PRC	**49%**	49%	Sales of piped gas
內蒙古呼鐵新能物流股份有限公司 ("Neimenggu Hutiexinneng Logistics Holdings Limited")	Incorporated	The PRC	**39%** (note c)	39% (note c)	Provision of logistic services by railway
長沙新奧燃氣發展有限公司 ("Changsha Xinao Gas Development Limited")	Incorporated	The PRC	**55%** (note d)	55% (note d)	Sales of piped gas
德化廣安天然氣有限公司 ("Dehua Guangan Natural Gas Limited")	Incorporated	The PRC	**51%** (note d)	51% (note d)	Sales of piped gas
合肥新奧中汽能源發展有限公司 ("Hefei Xinao Zhongqi Energy Development Company Limited")	Incorporated	The PRC	**51%** (note d)	51% (note d)	Production, processing and operation of clean energy fuels like vehicle fuels, natural gas, liquefied petroleum gas, directly lather and methanol. Fitting of vehicle fuel appliances, construction and operation of CNG supply facilities, operation of vehicle repair.
北航新奧航務有限公司 ("Xinao Harbour Company Limited")	Incorporated	The PRC	**49%**	49%	Construction and operation of the facilities in pier
開封新奧銀海車用燃氣有限公司 ("Kaifeng Xinao Yinhai Gas For Vehicle Company Limited")	Incorporated	The PRC	**49%**	49%	Sale of gas appliances
廣東新奧龍鵬能源有限公司 ("Guangdong Xinao Longpeng Energy Company Limited")	Incorporated	The PRC	**–** (note e)	55% (note d)	Wholesale of liquefied petroleum gas

22. 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 2009	2008	Principal activities
新奧新能源(蘇州)有限公司 ("Xinao New Energy (Suzhou) Company Limited")	Incorporated	The PRC	– (note e)	50%	Wholesale of liquefied petroleum gas, directly lather and methanol
雲南新奧清潔能源有限公司 ("Yunan Xinao Clean Energy Company Limited")	Incorporated	The PRC	**60%** (note d)	60% (note d)	Production of compressed energy fuels including vehicle fuels, construction and operation of CNG supply facilities and operation of vehicle repair
廊坊新奧尤特萊職業培訓有限公司 ("Langfang ENN UTDSC Vocational Training Company Limited")	Incorporated	The PRC	– (note e)	51% (note d)	Provisional of professional technical training and consulting services of the business units
唐山新奧一運清潔能源有限公司 ("Tangshan Xinao Yiyun Clean Energy Company Limited")	Incorporated	The PRC	**60%** (note d)	60% (note d)	Construction and operation of CNG supply facilities and sales of vehicle fuel gas
蘇州新奧燃氣有限公司 ("Suzhou Xinao Company Limited")	Incorporated	The PRC	**51%** (note d)	51% (note d)	Wholesale of liquefied petroleum gas, CNG, directly lather and methanol
雲南雲投新奧燃氣有限公司 ("Yunnan Yuntaou Xinao Company Limited")	Incorporated	The PRC	**50%**	–	Construction and operation of vehicle gas refuelling stations

Notes:

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

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

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

(d) The Group holds more than 50% of the registered capital of these entities but it does not 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.

(e) These jointly controlled entities have been deregistered during the year ended 31 December 2009 and loss on deregistration amounting to RMB7,967,000 is recognised in profit and loss.

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

Included in the cost of investments in jointly controlled entities is deemed capital contribution of RMB1,000,000 (2008: RMB1,000,000) in relation to financial guarantee contract issued by the Group, deemed capital contribution of approximately RMB17,722,000 (2008: Nil) in relation to interest free advances to certain jointly controlled entities and goodwill of RMB94,141,000 (2008: RMB94,141,000). The fair value adjustment 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 movement of goodwill is set out below:

	2009	2008
	RMB'000	RMB'000
At beginning of the year	**94,141**	69,521
Arising on acquisition of additional interest in a jointly controlled entity, Dongguan Xinao	**–**	24,620
At end of the year	**94,141**	94,141

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

	2009	2008
	RMB'000	RMB'000
Current assets	**882,538**	631,366
Non-current assets	**981,866**	815,181
Current liabilities	**784,641**	520,475
Non-current liabilities	**188,383**	272,382
Income	**1,754,211**	1,832,400
Expenses	**1,543,492**	1,626,880

23. Available-For-Sale Financial Assets

	2009	2008
	RMB'000	RMB'000
Unlisted equity securities, at cost less impairment	**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 of the Company are of the opinion that their fair values cannot be measured reliably.

24. Loan Receivable

	2009	2008
	RMB'000	RMB'000
Represented by		
Non-current	**9,000**	12,000
Current (included in trade and other receivables) (Note 27)	**3,000**	3,000
	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 by annual 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.

25. Amounts due from/to Jointly Controlled Entities

	2009 RMB'000	2008 RMB'000
Amount due from jointly controlled entities:		
Current assets	**155,041**	207,350
Non-current assets	**26,644**	20,000
	181,685	227,350

Included in the amount due from/to jointly controlled entities are trade receivables amounting to RMB95,834,000 (2008: RMB95,016,000) and trade payables amounting to RMB131,702,000 (2008: RMB83,546,000) and the aged analysis is as follow:

	2009 RMB'000	2008 RMB'000
Trade receivables due from jointly controlled entities		
0 – 3 months	**33,331**	59,686
4 – 6 months	**36,871**	25,130
7 – 9 months	**9,305**	481
10 – 12 months	**3,612**	5,184
More than 1 year	**12,715**	4,535
	95,834	95,016
Trade payables due to jointly controlled entities		
0 – 3 months	**30,642**	70,651
4 – 6 months	**32,237**	3,910
7 – 9 months	**15,963**	2,959
10 – 12 months	**13,788**	1,940
More than 1 year	**39,072**	4,086
	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 of the Company, the above balances are not overdue.

Except for the unsecured amount due from a jointly controlled entity of RMB20,000,000 as at 31 December 2008, which bears interest at fixed rate at 6.57% per annum and is early repaid by the Group in 2009, the remaining amounts due from/to jointly controlled entities at 31 December 2008 and 2009 are unsecured, interest-free and without fixed repayment terms.

For the interest-free amounts due from 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 (2008: Nil) has been recognised as deemed capital contribution to jointly controlled entities for the year ended 31 December 2009. 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.

26. Inventories

	2009 RMB'000	2008 RMB'000
Construction materials	**204,066**	154,134
Gas appliances	**34,864**	32,007
Piped gas	**19,531**	37,299
Bottled liquefied petroleum gas	**4,709**	8,440
Spare parts and consumable	**22,876**	22,180
	286,046	254,060

The cost of inventories recognised as an expense during the year was RMB5,230,667,000 (2008: RMB5,019,197,000).

27. Trade and Other Receivables

	2009 RMB'000	2008 RMB'000
Trade receivables (note a)	**569,415**	490,754
Less: Impairment	**(76,273)**	(39,231)
	493,142	451,523
Other receivables (note b)		
– current portion	**210,706**	335,901
– non-current portion	**30,581**	–
	241,287	335,901
Less: Impairment	**(48,820)**	(39,232)
	192,467	296,669
Notes receivable (note c)	**37,538**	186,342
Advance to supplier, deposits and prepayments	**515,709**	496,553
Total trade and other receivables	**1,238,856**	1,431,087

	2009 RMB'000	2008 RMB'000
Analysed for reporting purpose as:		
Current assets	**1,208,275**	1,431,087
Non-current assets	**30,581**	–
	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 RMB1,347,000 (2008: RMB1,892,000).

(b) During the year, the Directors reassess the recoverability of the other receivables from affiliates of minority shareholders of subsidiaries and expects that an amount of RMB32,119,000 (2008: Nil) will be recoverable after one year from the end of the reporting period. Fair value adjustment amounting to approximately RMB1,538,000 (2008: Nil) as calculated by using effective interest rate of 5.94% per annum and terms ranges from 3 to 7 years has been recognised in profit or loss for the year ended 31 December 2009. The Directors expects the amounts receivable will be recovered from the distribution of profits from the subsidiaries in which the minority shareholders have interests. Accordingly, no impairment is provided.

(c) The notes receivables 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, at the end of the reporting period:

	2009 RMB'000	2008 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

27. Trade and Other Receivables *(continued)*

The following is an aged analysis of notes receivable:

	2009 RMB'000	2008 RMB'000
0-3 months	**37,538**	179,845
4-6 months	**–**	6,497
	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 balance are debtors with aggregate carrying amount of RMB398,402,000 (2008: 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 71 days (2008: 73 days).

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

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

	2009 RMB'000	2008 RMB'000
Within one year	**398,365**	401,151
Over one year	**37**	347
Total	**398,402**	401,498

Movements in the impairment on trade receivables

	2009 RMB'000	2008 RMB'000
Balance at beginning of the year	**39,231**	96,953
Impairment losses recognised on receivables	**59,885**	30,206
Amounts recovered during the year	**(12,367)**	(51,009)
Amounts written off as uncollectible	**(10,476)**	(36,919)
Balance at end of the year	**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

	2009 RMB'000	2008 RMB'000
Balance at beginning of the year	**39,232**	33,363
Impairment losses recognised on receivables	**10,130**	7,875
Amounts recovered during the year	**(542)**	(2,006)
Balance at end of the year	**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 RMB10,130,000 (2008: RMB7,875,000) has been made during the year ended 31 December 2009.

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

28. Amounts due from (to) Customers for Contract Work

	2009 RMB'000	2008 RMB'000
Contract costs incurred plus recognised profits	**651,076**	625,830
Less: Progress billings	**(974,559)**	(596,118)
	(323,483)	29,712
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**241,415**	495,318
Amounts due to customers for contract work	**(564,898)**	(465,606)
	(323,483)	29,712

29. Amounts due from/to Associates

	2009 RMB'000	2008 RMB'000
Amounts due from associates:		
Current	**4,301**	17,630
Non-current	**71,795**	–
	76,096	17,630

Included in the amount due from/to associate are trade receivables amounting to RMB12,057,000 (2008: RMB6,083,000) and trade payables amounting to RMB2,628,000 (2008: RMB669,000) and the aged analysis is as follow:

	2009 RMB'000	2008 RMB'000
Trade receivables due from associates		
0 – 3 months	**6,474**	3,703
4 – 6 months	**1,920**	683
7 – 9 months	**237**	912
10 – 12 months	**1,625**	680
More than 1 year	**1,801**	105
	12,057	6,083
Trade payables due to associates		
0 – 3 months	**2,270**	669
4 – 6 months	**69**	–
7 – 9 months	**289**	–
	2,628	669

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

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

For the interest-free amounts due from 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 (2008: Nil) has been recognised as deemed capital contribution to associates for the year ended 31 December 2009. 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.

30. Amounts due from Related Companies

	2009			2008		
	Balance at 31.12.2009 RMB'000	**Balance at 1.1.2009 RMB'000**	**Maximum amount outstanding during the year RMB'000**	Balance at 31.12.2008 RMB'000	Balance at 1.1.2008 RMB'000	Maximum amount outstanding during the year RMB'000
Amounts due from minority shareholders of subsidiaries with significant influence	**25,370**	**33,465**	**34,538**	33,465	26,197	33,465
Amounts due from companies controlled by a major shareholder and director (note a)	**25,896**	**23,557**	**30,593**	23,557	17,076	30,151
	51,266	**57,022**		57,022	43,273	

Analysed for reporting purposes as:

	2009 RMB'000	2008 RMB'000
Non-current assets (note b)	**34,582**	–
Current assets (note c)	**16,684**	57,022
	51,266	57,022

Note:

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

(b) The non-current amounts due from related companies represent advances to minority shareholders of certain subsidiaries of the Company. The amount is unsecured, interest-free and will be settled through future distribution of dividend by the subsidiary to the minority shareholder. The directors of the Company consider that the balance will not be repayable within one year, therefore, it is classified as non-current assets. Fair value adjustment amounting to RMB7,350,000 (2008: Nil) in respect of the interest-free advances to minority shareholders of subsidiaries, calculated by using an effective interest rate at 5.4% per annum and an average term of 2 years, has been recognised in the profit or loss in the year ended 31 December 2009.

(c) 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.

Included in the amounts due from related companies are trade receivables amounting to RMB29,121,000 (2008: RMB24,913,000) and the aged analysis is as follow:

	2009 RMB'000	2008 RMB'000
0 – 3 months	**1,238**	4,558
4 – 6 months	**1,556**	776
7 – 9 months	**1,036**	2,227
10 – 12 months	**4,847**	597
More than 1 year	**20,444**	16,755
	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 of the Company, the above balances are not overdue.

For the amount due form companies controlled by a major shareholder and director, the counterparties are related companies that are financially sound and for the amounts due from minority 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.

31. Restricted Bank Deposits

	2009 RMB'000	2008 RMB'000
Current	**118,270**	79,817
Non-current	**2,200**	–
	120,470	79,817

	2009 RMB'000	2008 RMB'000
Bank deposits secured for:		
Bills facilities	**97,370**	39,430
Purchase contracts with suppliers	**20,900**	39,987
Rights of operation	**2,200**	400
	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 and purchase contracts with suppliers. Restricted bank deposits classified as non-current assets represent the bank deposits pledged to local government to secure the rights of operation. The restricted bank deposits carry fixed interest rate range from 0.36% to 1.98% per annum as at 31 December 2008. The restricted bank deposits will be released upon the settlement of relevant bill facilities and the expiry of purchase contracts or operation rights.

32. 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 1.71% (2008: 0.72% to 3.06%) per annum. The bank balances denominated in RMB are deposited with banks in the PRC and the conversion of such balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

At the end of the reporting period, the cash and cash equivalents denominated in foreign currencies other than the functional currency of respective group entities is RMB96,956,000 (2008: RMB2,142,000), of which RMB69,491,000 (2008: RMB849,000) and RMB27,398,000 (2008: RMB1,254,000) are denominated in USD and HKD respectively.

33. Non-current Assets Classified as Held for Sale

Pursuant to a share transfer agreement dated 9 April 2008 entered into between the Company as vendor and 咸陽市國有資產監督管理委員會, an independent third party, as purchaser, the Company agreed to sell its entire 40% equity interest of an associate, 咸陽新奧燃氣有限公司 to 咸陽市國有資產監督管理委員會 at a consideration of RMB82,000,000, of which, RMB75,000,000 was received in 2008 and the RMB7,000,000 was received in 2009. The transaction was completed during the year ended 31 December 2009 and gain on disposal amounting to RMB5,023,000 was recognised in the consolidated statement of comprehensive income.

34. Trade and Other Payables

	2009 RMB'000	2008 RMB'000
Trade payables aged:		
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
Trade payables	**1,124,627**	1,014,053
Advances received from customers	**1,158,315**	1,122,741
Accrued charges and other payables	**488,632**	615,486
	2,771,574	2,752,280

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

35. Amounts due to Related Companies

	2009 RMB'000	2008 RMB'000
Amounts due to minority shareholders of subsidiaries with significant influence	**2,438**	2,366
Amounts due to companies controlled by a major shareholder and director (note a)	**5,151**	19,469
Amount due to a shareholder	**13,672**	13,672
	21,261	35,507

Notes:

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

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

Included in the amounts due to related companies are trade payables amounting to RMB5,871,000 (2008: RMB20,398,000) and the aged analysis is as follow:

	2009 RMB'000	2008 RMB'000
0 – 3 months	**1,167**	16,721
4 – 6 months	**174**	–
7 – 9 months	**113**	–
10 – 12 months	**694**	2,030
More than 1 year	**3,723**	1,647
	5,871	20,398

36. Bank and Other Loans

	2009	2008
	RMB'000	RMB'000
Bank loans		
Secured	**1,573,706**	1,848,086
Unsecured	**2,018,402**	1,441,046
	3,592,108	3,289,132
Other loans		
Secured	**36,000**	40,545
Unsecured	**96,493**	96,493
	132,493	137,038
	3,724,601	3,426,170
The bank and other loans are repayable:		
Within one year	**675,796**	1,239,450
Between one to two years	**349,817**	65,863
Between two to five years	**1,406,628**	494,252
More than five years	**1,292,360**	1,626,605
	3,724,601	3,426,170
Less: Amount due within one year shown under current liabilities	**675,796**	1,239,450
Amount due after one year	**3,048,805**	2,186,720

All the bank and other loans are denominated in the functional currency of respective group entities except for RMB1,092,512,000 (2008: RMB34,174,000) and RMB13,706,000 (2008: RMB125,786,000) which are denominated in USD and HKD respectively.

The secured bank and other loans are secured by pledge of property, plant and equipment, investment properties and rights on receiving fee income of certain subsidiaries and a jointly controlled entity as set out in Notes 48 and 49.

36. Bank and Other Loans *(continued)*

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

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% – 5.00% unsecured RMB other loans	12/6/2017	3.38% – 5.00%	**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 London Inter Bank Offer Rate plus 1.50%-2.20%	11/6/2011-30/11/2013	2.90%	**1,092,512**
Secured HKD bank loan of HKD17,633,000 at Prime rate minus 2.05%-2.20%	11/7/2013-27/9/2022	3.50%	**13,706**
Secured RMB other loan at prevailing market rate	15/12/2014-12/6/2017	4.10%	**36,000**
Total floating rate borrowings			**3,012,218**
Total borrowings			**3,724,601**

36. Bank and Other Loans *(continued)*

At 31 December 2008

	Maturity date	Effective interest rate per annum	Carrying amount RMB'000
Fixed-rate borrowings			
7.12% secured RMB bank loan	6/5/2009	7.12%	79,300
5.86% – 7.47% unsecured RMB bank loan	30/4/2009 – 2/10/2009	7.03%	207,872
3.38% – 5.00% unsecured RMB other loans	12/6/2017	3.38% – 5.00%	96,493
Total fixed-rate borrowings			383,665
Floating-rate borrowings			
Unsecured RMB bank loan at PBOC base rate	10/1/2009-15/12/2020	7.37%	1,199,000
Secured RMB bank loan at PBOC base rate	2/4/2009-20/12/2020	8.38%	1,643,000
Unsecured USD bank loan at London Inter Bank Offer Rate plus 1.50%	15/6/2009-15/12/2009	5.98%	34,174
Secured HKD bank loan of HKD125,000,000 at HIBOR plus 0.75%-1.15%	12/6/2009	2.58%	110,236
Secured HKD bank loan of HKD17,633,000 at Prime rate minus 2.05%-2.20%	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 Debenture

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, to issue short-term debenture with a maximum limit of RMB1,600,000,000 up to 12 August 2011.

On 27 August 2009, 新奧(中國)燃氣投資有限公司 issued the short-term debenture to third party with face value of RMB800,000,000. The unsecured debenture is unsecured, carried interests at 3.15% per annum is repayable within one year from the date of issue.

The balance at 31 December 2008 represents the short-term debenture issued to third party with face value of RMB600,000,000 and the accrued interests of RMB30,043,000. The amount was unsecured, carries interests at 5.95% per annum and was repaid during the year.

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

	2009 **RMB'000**	2008 RMB'000
Short term debenture issued during the year and repayable within one year	**808,699**	630,043

38. 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).

39. Deferred Income

	2009	2008
	RMB'000	RMB'000
At the beginning of the year	**20,770**	–
Amount received during the year	**286,749**	20,770
Release to profit and loss	**(11,104)**	–
At the end of the year	**296,415**	20,770

	2009	2008
	RMB'000	RMB'000
Presented in the consolidated financial statements as:		
Current	**16,290**	692
Non-current	**280,125**	20,078
	296,415	20,770

(a) During the year ended 31 December 2008, the Group received subsidies amounting to RMB7,770,000 from an industrial customer to subsidize the construction cost of the main gas pipelines to the gas provision site and the Group received subsidies amounting to RMB13,000,000 from another industrial customer to subsidize the construction cost of the gas storage station. 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 over the shorter of the committed gas provision period and the useful lives of the related assets. No income has been credited to the consolidated statement of comprehensive income during the year ended 31 December 2008 as the relevant pipelines are still under construction.

(b) During the year ended 31 December 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 of the Company 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 amounting to RMB286,749,000 are deferred and will release to the profit or loss over the estimated useful lives of the assets constructed.

40. Share Capital

	2009 Number of shares	2008 Number of shares	2009 HK$'000	2008 HK$'000
Shares of HK$0.10 each				
Authorised:				
At beginning and end of the year	**3,000,000,000**	3,000,000,000	**300,000**	300,000
Issued and fully paid:				
At beginning of the year	**1,009,759,397**	1,009,759,397	**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**	1,009,759,397	**105,015**	100,976

	2009 RMB'000	2008 RMB'000
Presented in financial statements as:		
At beginning of the year	**106,318**	106,318
Issue of shares on exercise of share options	**3,561**	–
At end of the year	**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 existing shares in all respects.

41. Guaranteed Notes

	2009 RMB'000	2008 RMB'000
Guaranteed notes	**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 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

	2009 RMB'000	2008 RMB'000
Deferred tax assets	**33,678**	–
Deferred tax liabilities	**(180,859)**	(150,873)
	(147,181)	(150,873)

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Valuation of properties RMB'000	Intangible assets RMB'000	Capitalisation of interest in property, plant and equipment RMB'000	Undistributed retained profit of PRC entities from 1 January 2008 RMB'000 (note)	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	11,956	92,438	8,014	–	–	(1,579)	110,829
Acquisition of subsidiaries and businesses	–	5,187	–	–	–	–	5,187
(Credit) charge to profit and loss	–	(5,835)	18,828	23,112	(1,940)	–	34,165
Charge to other comprehensive income	692	–	–	–	–	–	692
At 31 December 2008	12,648	91,790	26,842	23,112	(1,940)	(1,579)	150,873
(Credit) charge to profit and loss	–	(4,666)	9,332	16,259	(33,581)	–	(12,656)
Charge to other comprehensive income	8,964	–	–	–	–	–	8,964
At 31 December 2009	**21,612**	**87,124**	**36,174**	**39,371**	**(35,521)**	**(1,579)**	**147,181**

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

42. Deferred Taxation *(continued)*

At the end of the reporting period, the Group has unused tax losses of RMB1,119,071,000 (2008: RMB781,722,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the uncertainty of future profit streams. The unrecognised tax losses will expire in the following year ending 31 December:

	2009	2008
	RMB'000	RMB'000
2009	**–**	13,369
2010	**24,714**	25,177
2011	**87,524**	88,484
2012	**205,974**	222,903
2013	**417,920**	431,789
2014	**382,939**	–
	1,119,071	781,722

At the end of the reporting period, the Group has other deductible temporary differences of RMB583,976,000 (2008: RMB411,572,000), which are mainly arising from impairment of trade and other receivables and unrealised profit within the Group. No deferred tax asset has been recognised in relation to such other deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

43. Share Option Scheme

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

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

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

43. Share Option Scheme *(continued)*

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

					Number of options	
	Date of grant	**Exercise period**	**Exercise price**	**Outstanding at 1.1.2009**	**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						–

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

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

At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 40,390,000 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.

The Group recognised the total expense of RMB4,330,000 for the year ended 31 December 2008 in relation to share options granted by the Company in 2006 while no expenses is recognised in 2009 as all share options are exercised during the year ended 31 December 2009.

44. Acquisition of Businesses

(a) Acquisition during the year ended 31 December 2009

On 19 October 2009, the Group acquired 90% of the registered capital of 湖南瀏陽工業園開發投資有限公司, is engaged in sales of heat energy, at a cash consideration of approximately RMB21,897,000. 湖南瀏陽工業園開發投資有限公司 has changed its name as 長沙新奧熱力有限公司 upon the completion of acquisition by the Group. This transaction has been accounted for using the purchase method of accounting.

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:	
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
Minority interests	(2,107)
Goodwill on acquisition	2,936
Total consideration satisfied by cash	21,897
Net cash outflow arising on acquisition:	
Cash consideration paid	21,897
Cash and cash equivalents acquired	(344)
	21,553

The goodwill arising on the acquisition of 長沙新奧熱力有限公司 is attributable to its anticipated profitability and the anticipated future operating synergies from the combination.

湖南瀏陽工業園開發投資有限公司 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 end of the reporting period.

If the above acquisition 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.

44. Acquisition of Businesses *(continued)*

(b) Acquisition during the year ended 31 December 2008

(i) On 5 May 2008, the Group acquired 90% of the registered capital of 廣州富城管道燃氣有限公司 at a cash consideration of RMB17,000,000. This transaction has been accounted for using the purchase method of accounting. The fair value of assets and liabilities acquired in the transaction is set out as follows:

	Carrying amount before combination RMB'000	**Fair value adjustment** RMB'000	**Fair value** RMB'000
Net assets acquired:			
Plant and equipment	429	–	429
Intangible assets			
– customer base	–	390	390
– right of operation	–	20,361	20,361
Inventories	681	–	681
Trade and other receivables	1,742	–	1,742
Cash and cash equivalents	847	–	847
Trade and other payables	(874)	–	(874)
Shareholder's loan	(4,500)	–	(4,500)
Deferred taxation	–	(5,187)	(5,187)
	(1,675)	15,564	13,889
Minority interests			(1,389)
Total consideration, satisfied by cash			12,500
Net cash outflow arising on acquisition:			
Cash consideration paid			(12,500)
Cash paid on settlement of shareholder's loan			(4,500)
Cash and cash equivalents acquired			847
			(16,153)

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

44. Acquisition of Businesses *(continued)*

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

(ii) On 14 October 2008, the Group acquired 100% of the registered capital of 許昌市綠色環保汽車技術有限公司, which is engaged in conversion of fuel pipes of vehicles business, at a cash consideration of RMB1 from four individuals, who are independent third parties to the Group. This transaction has been accounted for using the purchase method of accounting. The 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:	
Plant and equipment	45
Inventories	343
Trade and other receivables	181
Cash and cash equivalents	360
Trade and other payables	(266)
	663
Discount on acquisition	(663)
Total consideration	–
Net cash inflow arising on acquisition, representing cash and cash equivalents acquired	360

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

44. Acquisition of Businesses *(continued)*

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

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

	RMB'000
Net assets acquired:	
Property, plant and equipment	150,516
Prepaid lease payments	5,011
Inventories	11,222
Trade and other receivables	82,373
Cash and cash equivalents	533
Loan from a shareholder	(138,000)
Trade and other payables	(6,831)
	104,824
Minority interest	(18,868)
Interest in an associate	(44,744)
Elimination of share of profit on gain on disposal of Beihai Xinao recognised by Dongguan Xinao, net off against share of result of jointly control entities for the year 2008	12,692
Goodwill	15,296
Total consideration, included in other payable as at 31 December 2008 and is settled in 2009	69,200
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	533

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

Beihai Xinao contributed a loss of RMB831,000 and no revenue to the Group for the period between the date of acquisition and the end of the reporting period.

If the above acquisitions had been completed on 1 January 2008, total group revenue for the year ended 31 December 2008 would have been RMB8,305,075,000 and profit for the year ended 31 December 2008 would have been RMB869,754,000. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

45. Disposal of a Subsidiary

On 21 March 2009, the Group disposed of its subsidiary, Nantong Xinneng Gas Development Company Limited (南通新能氣體開發有限公司) 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)
	3,952
Minority interests	(1,581)
Loss on disposal	(1,571)
Total consideration satisfied by cash	800
Net cash inflow arising on disposal:	
Cash consideration	800
Cash and cash equivalents disposed of	(25)
	775

46. Commitments

(a) Capital commitments

	2009 RMB'000	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 amounting to RMB10,788,000 (2008: RMB4,660,000) in respect of acquisition of land use rights in the PRC.

47. 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:

	2009 RMB'000	2008 RMB'000
Within one year	**17,028**	19,942
In the second to fifth year inclusive	**22,806**	30,711
Over five years	**31,498**	26,571
	71,332	77,224

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

The Group as lessor

The Group's investment properties are held for rental purposes. The properties are expected to generate rental yields of 4.8% (2008: 4.0%) on an ongoing basis. All of the properties held have committed tenants for an average term of one year.

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

	2009 RMB'000	2008 RMB'000
Within one year	**2,791**	1,902
In the second to fifth year inclusive	**3,052**	3,209
Over five years	**1,073**	1,232
	6,916	6,343

48. Pledge of Assets

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

	2009 RMB'000	2008 RMB'000
Carrying amount of:		
Property, plant and equipment	**27,290**	87,783
Investment properties	**22,188**	29,449
Restricted bank deposits	**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 in favour of banks to secure banking facilities amounting to RMB1,950,000,000 (2008: RMB1,950,000,000) granted to the Group and RMB1,465,000,000 (2008: RMB1,505,000,000) of which is utilised up to 31 December 2009.

49. Related Party Transactions

Apart from the related party balances as stated in Notes 25, 29, 30 and 35, the Group had the following transactions with certain related parties:

	2009 RMB'000	2008 RMB'000
Nature of transaction		
Associates:		
– Sales of gas to	**2,768**	32,397
– Sales of materials to	**4,135**	3,082
– Purchase of gas from	**16,345**	28,001
– Purchase of materials from	**2,337**	2,404
– Provision of gas transportation services to	**11,697**	11,748
– Loan interest received from	**–**	8,819
Jointly controlled entities:		
– Sales of gas to	**163,385**	223,973
– Sales of materials to	**66,136**	63,338
– Purchase of gas from	**198,071**	136,047
– Provision of gas transportation services to	**231,351**	179,869
– Loan interest received from	**4,933**	5,735
– Purchase of materials – dimethyl ether ("DME") from	**–**	3,197
– Payment made on behalf of the Group	**3,461**	2,866
– Provision of gas connection services to	**25,694**	–
– Provision of supporting services by	**1,158**	–
Companies controlled by Mr. Wang:		
– Sales of gas to	**2,606**	2,021
– Purchase of materials from	**36**	–
– Purchase of vehicles from	**120**	–
– Purchase of materials – DME from	**12,263**	288,210
– Provision of gas connection service to	**5,519**	2,170
– Provision of property management services by	**4,320**	4,419
– Provision of property management services to	**436**	436
– Provision of decoration services by	**–**	3,500
– Lease of premises to	**1,039**	1,039
– Lease of premises from	**2,596**	2,596
– Provision of supporting services by	**22,071**	20,117
– Provision of maritime transportation services by	**18,874**	–
– Donate to (note)	**–**	4,880
Minority shareholders of subsidiaries with significant influence:		
– Provision of gas connection service to	**–**	1,546
– Provision of construction service by	**1,860**	1,788
– Loan advance to	**979**	2,775
– Lease of premises from	**1,496**	1,244
– Lease of land from	**1,572**	3,520
– Provision of transportation services by	**920**	901
– Interest receive from	**550**	–
– Purchase of gas from	**1,505**	–

Note: Donation is made to a non-profit making organization, 新奧慈善基金會, of which Mr. Wang is the legal representative up to April 2009.

49. Related Party Transactions *(continued)*

In addition, Mr. Wang and Ms. Zhao Baoju, spouse of Mr. Wang has provided personal guarantees to the extent of RMB300,000,000 (2008: RMB450,000,000) and a related company has provided corporate guarantee to the extent of RMB100,000,000 (2008: RMB240,000,000) to certain banks for banking facilities granted to the Group as at 31 December 2009.

An jointly controlled entity has pledged its rights to receive gas supply fee income in favour of a bank to secure banking facility amounting to RMB100,000,000 granted to the Group and RMB20,000,000 (2008: RMB95,000,000) of which is utilised up to 31 December 2009.

Compensation of key management personnel

The other remuneration of directors and other members of key management during the year was disclosed in Note 12.

50. 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.

The application of HKFRS 8 leads to change in basis of measurement of segment profit. In prior year, segment profit reresented the gross profit earned by each segment with the allocation of certain selling expenses, other income and other gains or losses relevant to the segment. 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 purpose of resource allocation and performance assessment.

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 RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	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	1,089,175	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

50. Segment Information *(continued)*

Year ended 31 December 2008

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	Consolidation 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	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

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

2009

	Gas connection RMB'000	**Sales of piped gas RMB'000**	**Distributions of bottled liquefied petroleum gas RMB'000**	**Sales of gas appliances RMB'000**	**Vehicle gas refuelling stations RMB'000**	**Consolidation RMB'000**
Assets:						
Segment assets	**2,270,529**	**7,454,597**	**102,400**	**131,982**	**422,239**	**10,381,747**
Interests in associates						**323,880**
Interests in jointly controlled entities						**1,015,641**
Unallocated corporate assets						**4,982,025**
Consolidated total assets						**16,703,293**
Liabilities:						
Segment liabilities	**2,814,014**	**700,366**	**16,641**	**54,663**	**48,849**	**3,634,533**
Unallocated corporate liabilities						**6,590,503**
Consolidated total liabilities						**10,225,036**

50. Segment Information *(continued)*

2008

	Gas connection RMB'000	Sales of piped gas RMB'000	Distributions of bottled liquefied petroleum gas RMB'000	Sales of gas appliances RMB'000	Vehicle gas refuelling stations RMB'000	Consolidation RMB'000
Assets:						
Segment assets	1,929,547	7,072,727	334,702	132,787	355,196	9,824,959
Interests in associates	–	–	–	–	–	292,438
Interests in jointly controlled entities	–	–	–	–	–	757,620
Unallocated corporate assets						3,699,301
Consolidated total assets						14,574,318
Liabilities:						
Segment liabilities	1,945,541	635,747	30,525	69,399	24,835	2,706,047
Unallocated corporate liabilities						6,426,831
Consolidated total liabilities						9,132,878

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, investment properties, other receivables, interest in associates and interest in jointly controlled entities; and
- all liabilities are allocated to reportable segments other than unallocated corporate liabilities, mainly include other payable, taxable payable and deferred taxation.

For the purpose of presenting segment revenue, result, 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 liquefied petroleum gas** 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:								
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	67,921	214,984	4,223	2,035	15,097	304,260	76,147	380,407
2008								
Additions to non-current assets (Note b)	155,889	1,070,931	98,123	4,632	89,633	1,419,208	56,677	1,475,885
Depreciation and amortisation	34,940	196,400	4,224	2,522	6,736	244,822	59,077	303,899

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 more than 90% 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 whole revenue of the Company.

51. Retirement Benefits Scheme

	2009	2008
	RMB'000	RMB'000
Retirement benefit contribution made during the year	**38,540**	31,977

According to the relevant laws and regulations in the PRC, the PRC subsidiaries of the Company are required to contribute a certain percentage of the payroll of their employees to the retirement benefits scheme to fund the retirement benefits of their employees. A subsidiary of the Company is required to join a Mandatory Provident Fund Scheme for all its employees in Hong Kong. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the respective schemes. During the two years ended 31 December 2009, there were no forfeited contributions, which arose upon employees leaving the retirement benefits schemes, available to reduce the contribution payable in the future periods.

52. Events after the Reporting Period

Subsequent to the end of the reporting period, the Group has acquired the equity interest of certain companies established in the PRC. Details of acquisition are as follows:

(a) The Group entered into an agreement with an independent third party to acquire 72.8% equity interest in 江蘇大通管輸天然氣有限公司, which is engaged in the operation of intermediate pipelines, at a cash consideration of USD9,362,400 in December 2009. Upon the completion of the transaction in January 2010, the entity becomes a subsidiary of the Group;

(b) Pursuant to an agreement entered into between the Group and an independent third party in December 2007, the Group agreed to acquire 80% equity interest in 山東七星液化石油氣有限公司, which is engaged in sales of bottled liquefied petroleum gas business at a cash consideration of RMB29,000,000 in December 2007. The transaction completed in January 2010 upon getting approval from the corresponding PRC local government and the entity becomes a subsidiary of the Group;

(c) The Group has acquired 100% equity interest of 廣州市富都管道燃氣有限公司, which is engaged in sales of piped gas business, from three independent parties for the cash consideration of RMB268,000,000. Upon the completion of the transaction in February 2010, the entity becomes a wholly owned subsidiary of the Group; and

(d) The Group has finished the acquisition of 80% equity interest of 盤錦遼濱盛態燃氣有限公司, which is engaged in sales of piped gas business, from three independent parties for the cash consideration of RMB12,600,000. Upon the completion of the transactions in March 2010, it becomes the subsidiaries of the Group.

As at the date of this report, the Group is still not yet in a position to assess the fair values of the net assets to be acquired and goodwill arising from the above transactions, therefore, such information are not disclosed.

53. 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 2009	2008	Principal activities
Xinao Gas Investment Group Limited	British Virgin Island	US$1,000	**100.00%**	100.00%	Investment holding
北海新奥燃氣有限公司 Beihai Xinao Gas Company Limited*	PRC	RMB120,000,000	**82.00%**	82.00%	Production and sales of LNG and compressed natural gas ("CNG"); design and installation of piped gas facilities; production, sales and repair of gas equipment and appliances
北京新奥燃氣有限公司 Beijing Xinao Gas Company Limited*	PRC	US$1,195,600	**95.00%**	95.00%	Sales of piped gas
北京新奥華鼎貿易有限公司 Beijing Xinao Huading Trading Company Limited#	PRC	US$23,800,000	**100.00%**	100.00%	Retail of gas pipelines, related materials and equipment
北京新奥京昌燃氣有限公司 Beijing Xinao Jingchang Gas Company Limited*	PRC	RMB9,900,000	**80.00%**	80.00%	Sales of piped gas
北京新奥京谷燃氣有限公司 Beijing Xinao Jinggu Gas Company Limited*	PRC	RMB9,900,000	**90.00%**	90.00%	Sales of piped gas
蚌埠新奥燃氣有限公司 Bengbu Xinao Gas Company Limited*	PRC	RMB110,000,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure
蚌埠新奥燃氣發展有限公司 Bengbu Xinao Gas Development Company Limited*	PRC	US$600,000	**70.00%**	70.00%	Sales of piped gas and bottled liquefied petroleum gas
蚌埠新奥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
蚌埠市高樂登液化氣有限責任公司 Bengbu City Gaoledeng Liquefied Gas Company Limited	PRC	RMB1,160,000	**–**	70.00%	Sales of liquefied gas and gas appliance
蚌埠市鑫達液化氣有限責任公司 Bengbu Xinda Liquefied Gas Company Limited	PRC	RMB500,000	**–**	70.00%	Sales of liquefied gas and gas appliance

53. 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 2009	2008	Principal activities
濱州新奧燃氣工程有限公司 Binzhou Xinao Gas Engineering Company Limited#	PRC	US$600,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
亳州新奧燃氣有限公司 Bozhou Xinao Gas Company Limited*	PRC	US$3,200,000	**70.00%**	70.00%	Sales of piped gas
亳州新奧燃氣工程有限公司 Bozhou Xinao Gas Engineering Company Limited*	PRC	US$800,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure
巢湖新奧燃氣有限公司 Chaohu Xinao Gas Company Limited*	PRC	US$5,784,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
巢湖新奧燃氣發展有限公司 Chaohu Xinao Gas Development Company Limited#	PRC	US$420,000	**100.00%**	100.00%	Sales of piped gas
巢湖新奧車用燃氣有限公司 Chaohu Xinao Vehicle Gas Company Limited#	PRC	US$540,000	**100.00%**	100.00%	Production and sale of gas for vehicle use
長沙新奧燃氣有限公司 Changsha Xinao Gas Company Limited*	PRC	RMB120,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure and sales of piped gas
長沙星沙新奧燃氣有限公司 Changsha Xingsha Xinao Gas Company Limited	PRC	RMB22,000,000	**46.75%**	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*	PRC	RMB8,000,000	**46.75%**	46.75%	Exploitation and sales of piped gas
長沙新奧熱力有限公司 Changsha Xinao Gas Heat Energy Company Limited*	PRC	RMB35,000,000	**90.00%**	–	Sale of heat energy
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

53. 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 **2009**	2008	Principal activities
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
鳳陽新奧燃氣有限公司 Fengyang Xinao Gas Company Limited#	PRC	US$2,000,000	**100.00%**	100.00%	Sales of piped gas
鳳陽新奧燃氣工程有限公司 Fengyang Xinao Gas Engineering Company Limited#	PRC	US$600,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
福州新奧清潔能源有限公司 Fuzhou Xinao Clean Energy Limited#	PRC	US$12,000,000	**100.00%**	100.00%	Sales of CNG, LPG and LNG
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
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%	In business preparation process. Not yet defined.

53. 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 2009	2008	Principal activities
邯鄲新奧車用燃氣有限公司 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 appliance
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
葫蘆島新奧燃氣有限公司 Huludao Xinao Gas Company Limited*	PRC	US$1,207,700	**90.00%**	90.00%	Sales of piped gas
葫蘆島新奧燃氣發展有限公司 Huludao Xinao Gas Development Company Limited*	PRC	US$1,200,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
湖南新奧燃氣儲配有限公司 Hunan Xinao Gas Storage Company Limited	PRC	RMB53,000,000	**74.50%**	–	Design and installation of gas equipments
湖南新奧清潔能源有限公司 Hunan Xinao Clean Energy Company Limited#	PRC	US$3,000,000	**100.00%**	100.00%	Construction and operation of vehicle gas refuelling stations
湖南銀通科技有限責任公司 Hunan Yintong Technology Company Limited*	PRC	RMB9,803,900	**51.00%**	51.00%	Research and development, production and sale of IC card metre and software system

53. 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 2009	2008	Principal activities
淮安新奧燃氣有限公司 Huaian Xinao Gas Company Limited*	PRC	RMB35,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas and bottled liquefied petroleum gas
淮安新奧燃氣發展有限公司 Huaian Xinao Gas Development Company Limited#	PRC	RMB7,000,000	**100.00%**	100.00%	Sales of piped gas and gas appliance
淮安新奧淮陰車用燃氣有限公司 Huaian Xinao Huaiyin Vehicle Gas Company Limited#	PRC	US$1,000,000	**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 equipments; 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%**	–	Technology research and development and promotion of compressed natural gas ("CNG")
惠安縣燃氣有限公司 Huian County Gas Company Limited*	PRC	RMB20,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
惠安新奧燃氣有限公司 Huian Xinao Gas Company Limited	PRC	RMB10,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
晉江新奧燃氣有限公司 Jinjiang Xinao Gas Company Limited	PRC	RMB60,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
晉江新奧燃氣管道燃氣輸配有限公司 Jinjiang Xinao Gas Pipeline Transmission Company Limited*	PRC	RMB30,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
金華新奧燃氣有限公司 Jinhua Xinao Gas Company Limited#	PRC	US$5,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure

53. 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 2009	2008	Principal activities
金華新奧燃氣發展有限公司 Jinhua Xinao Gas Development Company Limited#	PRC	US$600,000	**100.00%**	100.00%	Sales of piped gas
開封新奧燃氣有限公司 Kaifeng Xinao Gas Company Limited*	PRC	US$10,000,000	**90.00%**	90.00%	Sales of piped gas
開封新奧燃氣工程有限公司 Kaifeng Xinao Gas Engineering Company Limited*	PRC	US$800,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
來安新奧燃氣有限公司 Laian Xinao Gas Company Limited*	PRC	US$2,000,000	**95.00%**	95.00%	Sales of piped gas
來安新奧燃氣工程有限公司 Laian Xinao Gas Engineering Company Limited*	PRC	US$600,000	**95.00%**	95.00%	Investment in gas pipeline infrastructure
萊陽新奧燃氣有限公司 Laiyang Xinao Gas Company Limited*	PRC	US$5,000,000	**95.00%**	95.00%	Sales of piped gas
萊陽新奧燃氣工程有限公司 Laiyang Xinao Gas Project Company Limited*	PRC	US$800,000	**96.50%**	96.50%	Investment in gas pipeline infrastructure
萊陽新奧車用燃氣有限公司 Laiyang Xinao Vehicle Gas Company Limited#	PRC	US$2,000,000	**100.00%**	100.00%	Construction and operation of vehicle gas refuelling stations
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
廊坊新奧軟件科技有限公司 Langfang Xinao Software Technology Company Limited#	PRC	US$120,000	**100.00%**	100.00%	Development, production and sale of IC card metre and software system

53. 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 **2009**	2008	Principal activities
連雲港新奧燃氣有限公司 Lianyungang Xinao Gas Company Limited*	PRC	RMB49,512,100	**70.00%**	70.00%	Sales of piped gas
連雲港新奧燃氣工程有限公司 Lianyungang Xinao Gas Development Company Limited*	PRC	RMB10,000,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure
聊城新奧燃氣有限公司 Liaocheng Xinao Gas Company Limited*	PRC	US$1,933,200	**90.00%**	90.00%	Sales of piped gas
聊城新奧燃氣工程有限公司 Liaocheng Xinao Gas Engineering Company Limited*	PRC	US$1,200,000	**93.00%**	93.00%	Investment in gas pipeline infrastructure
龍游新奧燃氣有限公司 Longyou Xinao Gas Company Limited*	PRC	US$3,000,000	**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 Project Company Limited#	PRC	US$800,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
鹿泉新奧車用燃氣有限公司 Luquan Xinao Vehicle Gas Company Limited#	PRC	US$880,000	**100.00%**	100.00%	Production and sale of compressed natural gas
灤縣新奧燃氣有限公司 Luanxian Xinao Gas Company Limited	PRC	RMB5,000,000	**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
洛陽市通奧管道燃氣器具有限公司 Luoyang City Tongao Piped Gas Appliance Company Limited	PRC	RMB786,000	**70.00%**	70.00%	Production and sale of gas appliance
洛陽市中天燃氣工程設計有限公司 Luoyang City Zhongtian Gas Engineering Design Company Limited	PRC	RMB1,000,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure

53. 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 2009	2008	Principal activities
洛陽新奧華油燃氣有限公司 Luoyang Xinao Huayou Gas Company Limited*	PRC	RMB160,000,000	**70.00%**	70.00%	Sales of natural gas, LPG and coal gas
洛陽新奧液化氣有限公司 Luoyang Xinao Liquefied Gas Limited#	PRC	RMB16,090,000	**100.00%**	100.00%	Sales of liquefied gas and gas appliance of piped gas
南安新奧燃氣有限公司 Nanan Xinao Gas Company Limited*	PRC	RMB10,000,000	**42.00%** (note c)	42.00% (note c)	Investment in gas pipeline infrastructure
南安市燃氣有限公司 Nanan City Gas Company Limited	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 regional energy solutions
南昌新奧燃氣有限公司 Nanchang Xinao Gas Company Limited#	PRC	US$3,500,000	**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
南通新能氣體開發有限公司 Nantong Xinneng Gas Development Company Limited*	PRC	RMB6,000,000	**–**	60.00%	Sales of CNG, LNG and gas appliance
南通新奧燃氣工程有限公司 Nantong Xinao Gas Technology Company Limited*	PRC	US$800,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
南通新奧車用燃氣發展有限公司 Nantong Xinao Vehicle Gas Development Company Limited#	PRC	US$5,000,000	**100.00%**	100.00%	Construction and operation of vehicle gas refuelling stations
青島新奧燃氣有限公司 Qingdao Xinao Gas Company Limited*	PRC	RMB20,000,000	**90.00%**	90.00%	Sales of piped gas
青島新奧膠城燃氣有限公司 Qingdao Xinao Jiaocheng Gas Company Limited*	PRC	US$5,000,000	**90.00%**	90.00%	Sales of piped gas

53. 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 2009	2008	Principal activities
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 Establishment Exploiture Company Limited*	PRC	US$600,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
衢州新奧燃氣有限公司 Quzhou Xinao Gas Company Limited*	PRC	RMB50,000,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
衢州新奧燃氣發展有限公司 Quzhou Xinao Gas Development Company Limited*	PRC	US$600,000	**90.00%**	90.00%	Sales of piped gas
泉州市燃氣有限公司 Quanzhou City Gas Company Limited*	PRC	RMB450,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
泉州市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 appliance

53. 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 2009	2008	Principal activities
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%**	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	**51.00%**	51.00%	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

53. 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 2009	2008	Principal activities
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%**	–	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 equipments
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
天津新奧燃氣有限公司 Tianjin Xinao Gas Company Limited#	PRC	RMB$4,000,000	**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

53. 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 2009	2008	Principal activities
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 liquefied petroleum gas
新鄉新奧燃氣工程有限公司 Xinxiang Xinao Gas Engineering Company Limited*	PRC	US$1,200,000	**96.50%**	96.50%	Investment in gas pipeline infrastructure
興化新奧燃氣有限公司 Xinghua Xinao Gas Company Limited#	PRC	US$1,200,000	**100.00%**	100.00%	Sales of piped gas
興化新奧燃氣工程有限公司 Xinghua Xinao Gas Engineering Company Limited*	PRC	US$600,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奧能源物流有限公司 Xinao Energy Logistics Company Limited#	PRC	US$12,400,000	**100.00%**	100.00%	Transportation of oil products and gas
新奧(廊坊)能源商務服務有限公司 Xinao (Langfang) Energy Business Services Company Limited#	PRC	RMB$10,000,000	**100.00%**	–	Provision of business advisory services
新奧能源銷售有限公司 Xinao Energy Sales Company Limited#	PRC	US$28,200,000	**100.00%**	100.00%	Wholesale and retail of LNG & CNG, piped gas facilities, gas equipment, appliances and others
新奧能源咨詢有限公司 Xinao Energy Consultant Company Limited#	PRC	RMB50,000,000	**100.00%**	100.00%	Provision of consultation services on overall comprehensive energy solutions
新奧燃氣發展有限公司 Xinao Gas Development Company Limited#	PRC	US$6,000,000	**100.00%**	100.00%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas

53. 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 2009	2008	Principal activities
新奧燃氣工程有限公司 Xinao Gas Engineering Company Limited#	PRC	US$7,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奧(中國)燃氣投資有限公司 Xinao (China) Gas Investment Company Limited#	PRC	US$231,778,124	**100.00%**	100.00%	Investment holding
新奧(廊坊)燃氣技術研究發展有限公司 Xinao Gas Langfang Technology Research and Development Company Limited#	PRC	US$1,400,000	**100.00%**	100.00%	Technology research and development, product development
湘潭新奧燃氣發展有限公司 Xiangtan Xinao Gas Development Company Limited*	PRC	RMB30,000,000	**85.00%**	85.00%	Sales of piped gas and gas appliance
蕭山利達管道燃氣有限公司 Xiaoshan Lida Piped Gas Company Limited#	PRC	RMB3,000,000	**100.00%**	100.00%	Sales of piped gas and gas appliance
新安新奧燃氣有限公司 Xinan Xinao Gas Company Limited*	PRC	RMB10,000,000	**63.00%**	63.00%	Sales of piped gas and gas appliance
新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 Gas Heat Energy Company Limited#	PRC	RMB38,100,000	**100.00%**	–	Sales of heat energy
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

53. 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 2009	2008	Principal activities
鹽城新奧燃氣有限公司 Yancheng Xinao Gas Company Limited*	PRC	RMB50,000,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure
鹽城新奧燃氣發展有限公司 Yancheng Xinao Gas Development Company Limited*	PRC	US$600,000	**79.00%**	79.00%	Sales of piped gas
鹽城新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 sale of gas equipment and others
煙台牟平新奧天然氣加氣有限公司 Yantai Muping Xinao Gas Refueling Limited*	PRC	RMB7,000,000	**78.00%**	58.00%	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%**	–	Sales of piped gas

53. 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 2009	2008	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%**	–	Design and installation of gas equipments
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%**	100.00%	Sale of gas for vehicle use
諸城新奧燃氣有限公司 Zhucheng Xinao Gas Company Limited#	PRC	US$3,000,000	**100.00%**	100.00%	Sales of piped gas and bottled liquefied petroleum gas
諸城新奧管道工程有限公司 Zhucheng Xinao Pipeline Engineering Company Limited#	PRC	US$800,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
株洲新奧燃氣有限公司 Zhuzhou Xinao Gas Limited*	PRC	RMB135,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure 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

53. 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 2009	2008	Principal activities
淄博新奧燃氣有限公司 Zibo Xinao Gas Company Limited#	PRC	RMB5,370,000	**100.00%**	–	Operation of vehicle gas refuelling stations
鄒平新奧燃氣有限公司 Zouping Xinao Gas Company Limited#	PRC	US$1,200,000	**100.00%**	100.00%	Sales of piped gas

Notes:

a. The Group hold 46.75% indirect effective interest in 長沙星沙新奧燃氣有限公司 and 長沙星沙新奧燃氣發展有限公司 through the 85% direct interest held by a 55% owned subsidiary, 長沙新奧燃氣有限公司. Therefore, the Group has control over these entities and they are considered as subsidiaries of the Company.

b. The Group hold 42% indirect effective interest in 南安市燃氣有限公司 through the 70% direct interest held by a 60% owned subsidiary, 泉州市燃氣有限公司. Therefore the Group has control over this entity and it is considered as a subsidiary of the Company.

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

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

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

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

None of the subsidiaries had issued any debt securities at the year ended 31 December 2009 or at any time during the year except for 新奧(中國)燃氣投資有限公司 which has issued short-term debenture to third party debenture holders with face value of RMB800,000,000, in which the Group has no interest.

* Sino-foreign equity joint venture

\# Wholly foreign owned enterprise

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